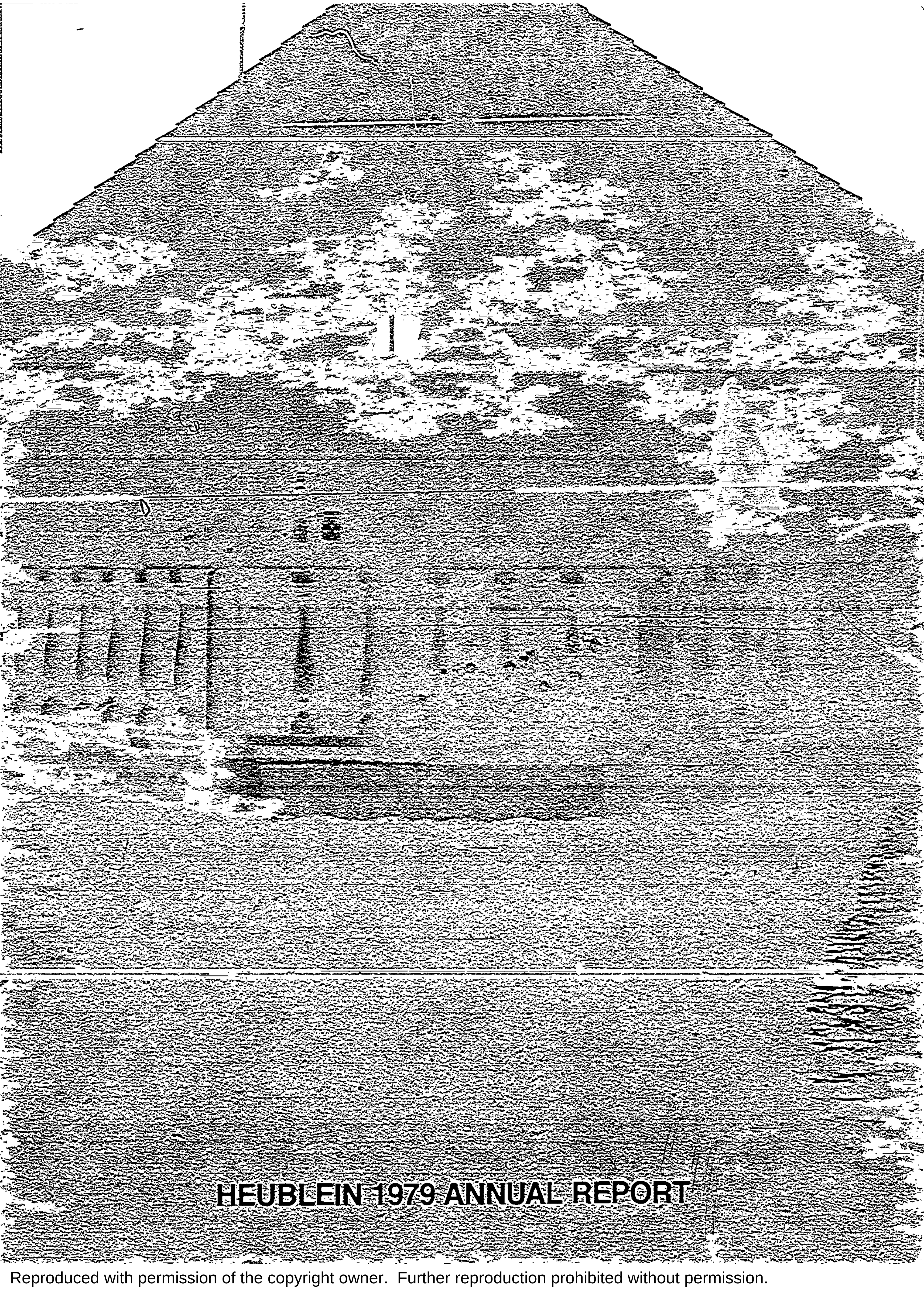


HEUBLEIN 1979 ANNUAL REPORT

For more than a century Heublein has made it a business to stay close to consumers. It tracks changing social values and attitudes, as reflected in changing lifestyle, in order to understand changing consumer needs and tastes, and to serve them with high quality foods and beverages. This pursuit served Heublein well in fiscal 1979, a year when consumers coped with inflation, [illegible] crisis, and the threat of a recession. A[illegible]ing to these new realities, consumers modi[illegible] their [illegible] in [illegible] ways, w[illegible] their [illegible] desire [illegible] active, [illegible] lives. To[illegible]s lif[illegible] an integral part, [illegible] in the [illegible]tos in this [illegible] a[illegible]rt.

Financial Highlights

(In thousands except per share data)	1979	1978*	% Increase
Revenues	**$1,769,074**	**$1,620,112**	9.2
Income before income taxes	131,019	109,300	19.9
Income taxes	62,889	53,010	18.6
Net income	**68,130**	**56,290**	**21.0**
Dividends declared	31,631	29,269	8.1
Shareholders' equity	450,705	413,751	8.9
Average number of common shares outstanding	21,363	21,251	.5
Per common share:			
Earnings — primary	$ 3.19	$ 2.65	20.4
Earnings — fully diluted	3.09	2.58	19.8
Dividends declared	1.49	1.38	8.0
Shareholders' equity	21.16	19.43	8.9

*Restated for the effect of capital leases existing prior to January 1, 1977.

Contents

Stuart D. Watson *Hicks B. Waldron*

By concentrating on the basics with good planning and good execution and by offering better values to the consumer, we made strong gains in our company again this year and achieved a turnaround in Kentucky Fried Chicken's performance.

The company's total sales were up 9 per cent to a record $1.77 billion. Net income increased 21 per cent to $68 million, and earnings-per-share were up 20 per cent to $3.19.

Kentucky Fried Chicken's 743 company-owned stores had 52 consecutive weeks of improved sales over the comparable weeks the prior year and ended this year 14 per cent ahead in average sales per store. Royalties from KFC franchisees in the U.S. were up 13 percent.

This was the year that Smirnoff became the nation's best-selling spirits brand, according to an industry report, and Inglenook celebrated its Centennial Year with an outstanding performance.

These accomplishments were realized in a year of great uncertainty in the world economy.

As the U.S. moved toward recession, the hard-hit consumer instinctively retrenched, but preserved a cherished lifestyle by continuing to purchase premium brand beverages and convenience foods. We saw this reflected in the record U.S. sales of our spirits and wines and in the record level reached by our international food and beverage business.

Progress was made on many other fronts. We increased the dividend for the nineteenth consecutive year. We raised the return on shareholders' equity and, while increasing current business, invested heavily in the future.

Capital expenditures reached a record $73 million and our investment in brand-building through advertising, merchandising and promotion amounted to $155 million, another record. We recently concluded agreements with a number of banks for $125 million in credit to meet the company's seasonal needs.

We streamlined our top-management structure to enhance its strength and flexibility and to shorten corporate lines of communication. Gwain H. Gillespie, senior vice president-finance and administration, was given responsibility for all corporate staff groups, and John A. Powers, formerly head of United Vintners, was named senior vice president-alcoholic beverages, responsible for the overall direction of our spirits and wine business.

The resurgence of Kentucky Fried Chicken's business is the result of enormous hard work over the past two years. KFC's management, at all levels, concentrated its energies and resources on improving basic areas of the business.

KFC not only looks better and tastes better, it *is* better. Even Colonel Sanders, a sometimes caustic but always constructive critic, attests to that.

Of the 14 per cent sales growth achieved by company stores this year, eight per cent was real volume growth, the remainder resulting from increased prices.

KFC's system of 4,300 stores throughout the United States has never been so united, effective and in such harmony. We're determined to continue our progress in this direction.

More than ever, we're convinced that the high quality, fast-food chicken meal, conveniently prepared outside the home, has won a lasting place in today's consumer economy. KFC represents this American meal at its best.

The rapid growth seen in our grocery products business in recent years slowed somewhat as the economy wound down and food wholesalers and retailers further reduced their lean inventories. The higher cost of beef also adversely affected sales of A.1. Steak Sauce. But our Ortega brand Mexican foods and Grey Poupon mustard did well. There were signs of overall improvement as the year drew to a close and most of our grocery products reported increased market shares.

Our Beverage Operations, comprising both our spirits and wine businesses, had a record sales year, topping a billion dollars for the first time.

Consumption of spirits in the United States turned upward after three years of near-stagnation, and

the year ended with a three per cent gain. Heublein's sales continued to grow more than twice as fast as the entire U.S. spirits industry.

Vodka, the nation's leading spirit, strengthened its position with an 18 per cent market share. Smirnoff was the leading brand by better than a 2 to 1 margin.

Our Popov was in second place, among vodkas, with sales of nearly three million cases, which makes it one of the ten best-selling U.S. spirits brands. It had the fastest growth of all leading spirits brands in the U.S. last year, up 33 per cent.

The most notable gain for the year was the 17 per cent growth in industry sales of specialties, like our cocktails, cordials and other flavorful drinks. This clearly reflects a market that is younger, more eclectic, more adventuresome and more moderate in its use of lighter drinks on more social occasions. Our Harveys Bristol Cream, Lancers Wine and Jose Cuervo Tequila benefited from this trend.

United Vintners, our California wine company, had a record sales year but shortly after the year closed we received disappointing news. A Federal Trade Commission administrative law judge ruled that Heublein should divest itself of United Vintners on grounds that its acquisition may substantially diminish wine industry competition.

We have fought this case for seven years, contending that rather than reducing competition our acquisition of U.V. actually increased competition among California wines. We have appealed the decision to the full Federal Trade Commission, and, if necessary, will pursue the matter further through the courts.

The company's international business continues to grow at an average rate almost three times greater than that of its U.S. business. That's been true now for the past seven years. Last year International sales again grew three times faster with foods and beverages each making about the same rates of gain.

Kentucky Fried Chicken sales were especially strong in such major markets as Japan, Australia and the United Kingdom. KFC's international results were aided by a program of quality, service and cleanliness patterned after that in the U.S.

Smirnoff's greater volume overseas came chiefly from stronger licensee sales in Europe and increased exports from the U.S. Smirnoff is now selling more than 1.5 million cases a year in the United Kingdom and almost a million cases a year in Canada.

Our distillery and winery in Brazil are Heublein's largest overseas investment and their growth, since we acquired them in 1973, is but a small indication of the potential we see. After strengthening the management in Brazil, and improving the marketing and the operational and financial controls, we saw the results this year in much improved sales and operating profit.

Of course, Brazil is a high-inflation country with heavy foreign debt, made heavier by high oil-import bills. But it's a land of great promise, and, if that promise is only partly realized, it could prove to be highly profitable for consumer products companies such as ours.

Again, this year, Heublein supported programs benefiting its employees and their families.

Two aid programs — one to assist with the cost of education, the other to provide counseling on personal problems — were more widely used. As a result of our emphasis on affirmative action, more women and minority group members moved into our management ranks at the Group level in positions such as vice president, controller and state sales manager.

In discharging our social responsibilities we gave priority to communities where we operate, aiding health, education and welfare programs. In cooperation with the National Urban League, several of our managers and professionals performed as visiting instructors on college campuses to teach students the practical aspects of business.

Heublein continues to support the U.S. spirits industry's programs of public education regarding the abuse of alcohol and the disease of alcoholism. Christopher W. Carriuolo, Heublein's executive vice president, has been instrumental in directing an industry-wide effort in his position as chairman of the Distilled Spirits Council of the U.S.

While it was a year of unpredictable circumstances and problems, we were able to handle most of them and in the process exceeded our targeted goals. Management at all levels performed very well. We are grateful for the help of dedicated employees and the support of our shareholders and a working board of directors. The six committees of the board contributed significantly to the year's successes and in positioning the company for future growth.

Looking ahead, we believe we are in proven businesses where our premium brands of food and beverages are very well established. We have a stronger organization in place and tested management to direct it. As to next fiscal year, we believe we have realistically appraised the risks as well as the opportunities. We have developed plans and contingency plans accordingly, and we expect to achieve our growth targets again in fiscal year 1980.

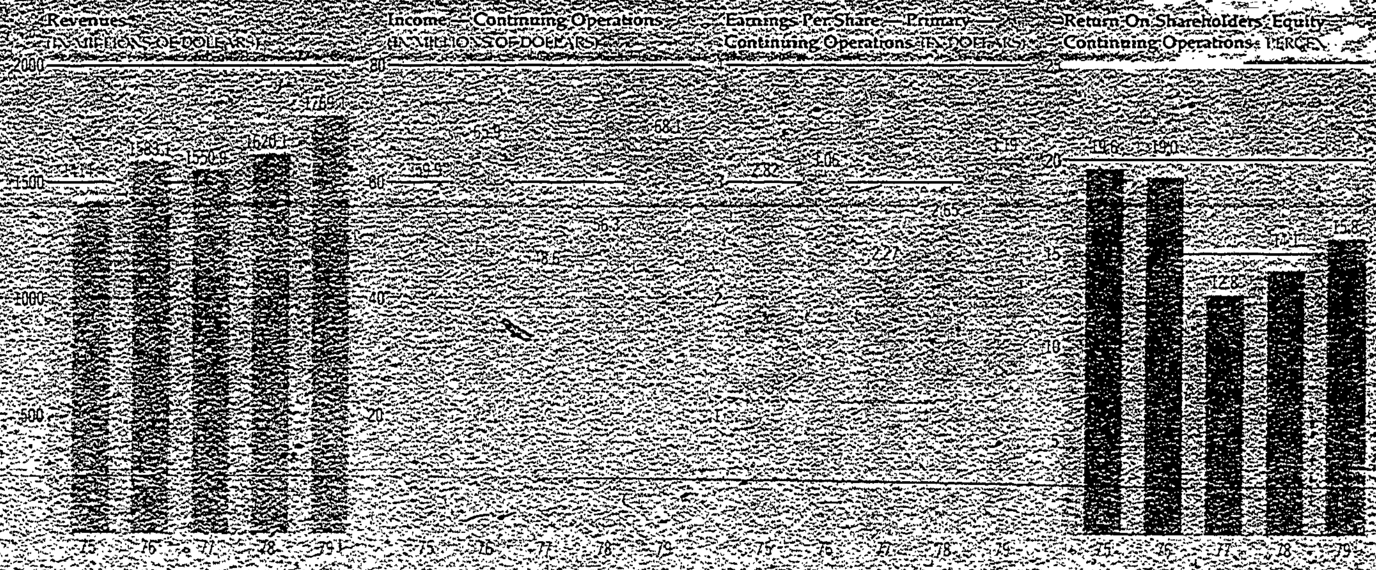
Stuart D. Watson

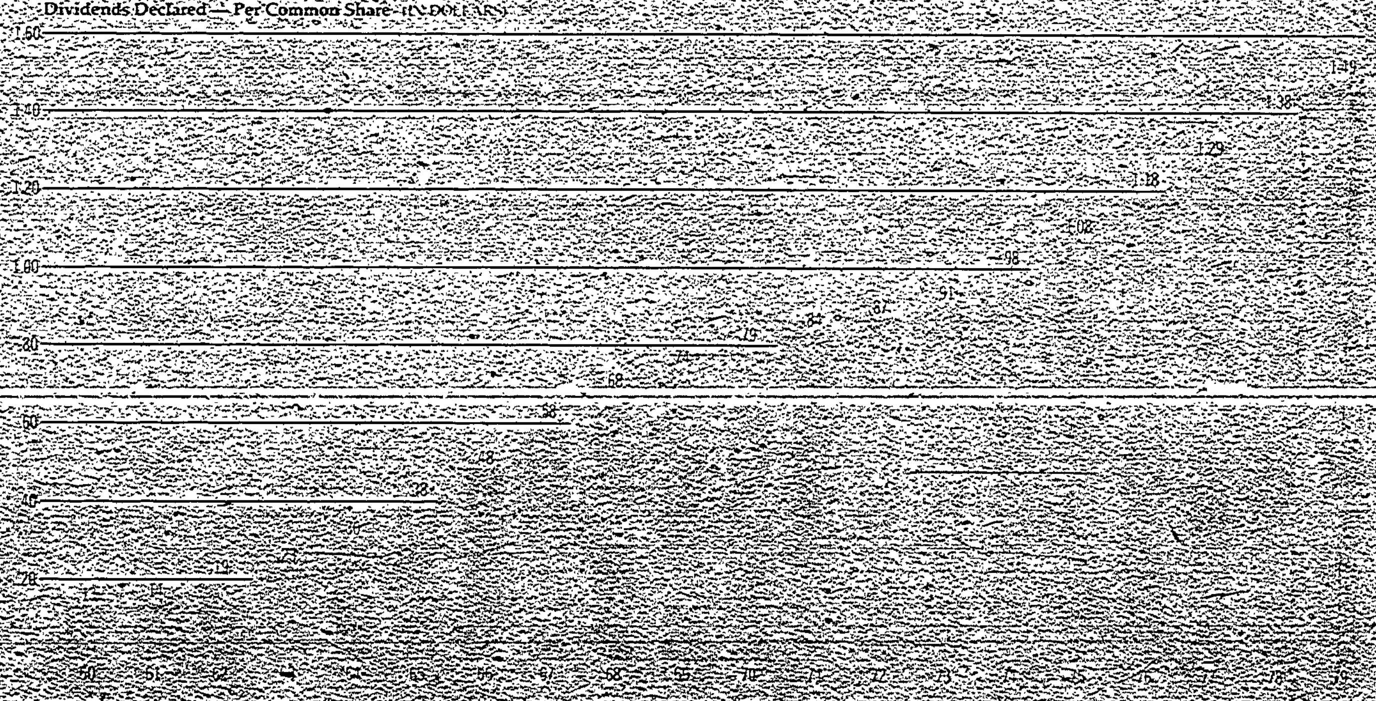
Stuart D. Watson
Chairman

Hicks B. Waldron

Hicks B. Waldron
President

Financial Highlights





Heublein Beverage Operations

FISCAL 1979 was both rewarding and refreshing for Heublein's domestic Beverage Operations.

Rewarding because of its record sales and operating profit, and refreshing because the nation's spirits industry climbed from the plateau of recent years and showed fresh new growth.

This trend bodes well for Heublein, the leader in several of the industry's fastest-growing product categories.

In achieving record sales and operating profit for the year, Heublein's Beverage Operations marked some major milestones:

- Sales exceeded $1 billion for the first time.
- A record 42.2 million cases of spirits and wines were shipped.
- Inglenook celebrated its 100th year with record shipments.
- Smirnoff became the nation's best-selling spirits brand, according to an independent industry report.
- Popov was the fastest-growing of all major U.S. spirits brands.

Total sales for Beverage Operations, which includes the Spirits and Wines Groups, were $1,014,260,000, up 10 percent from the prior year. Operating profit gained 14 percent, amounting to $101,764,000.

After three years on a relative plateau, total U.S. spirits consumption increased more than three percent, giving the industry one of its best years in a decade.

Heublein, continuing to grow on its own faster track, had a gain of more than seven percent in volume.

Vodka's lightness and versatility have made it the nation's most popular spirit. Smirnoff, the leading brand, gained more than five percent.

The reason was the same as in recent years. Consumers showed an increasing preference for lighter, more flavorful drinks. Vodka's lightness and versatility, in mixing with other beverages, made it the nation's most popular spirit, and it grew another three percent last year. Smirnoff, the leading brand, gained more than five percent. Popov was the fastest-growing of all major U.S. brands, up 33 percent.

On the lighter side of whiskies, sales of Black Velvet Canadian were up eight percent, or better than twice the growth rate of the Canadian whisky category.

And on the flavorful side, Heublein prepared cocktails, Arrow Cordials, and the premium imported wines, Lancers and Harveys Bristol Cream, marketed by the Spirits Group, all showed increases, mostly double-digit.

Sales exceeding a million cases were achieved by six Heublein spirit brands — Smirnoff, Popov, Black Velvet, The Club Cocktails, Heublein Cocktails and Arrow Cordials.

Four other brands exceeded a half-million cases — Harveys Bristol Cream, Lancers Wines, Relska Vodka and Jose Cuervo Tequila.

Looking to the coming year and beyond, the Spirits Group made a record investment in advertising, merchandising and promotion. As the year ended, the first in a series of new Smirnoff ads began appearing in major consumer magazines, featuring "Smirnoff Style" as the creative theme.

In these ads, the innovative lifestyle of Smirnoff consumers is depicted in novel yet relevant situations.

More than a dozen new products were introduced by the Spirits Group, most with encouraging signs of success.

New products, sometimes referred to as the lifeblood of consumer marketing companies, were launched at a high rate this

year by the Spirits Group. More than a dozen, including extensions of existing product lines, were introduced, most with encouraging signs of success. The newest and most promising is a line of Exotic Cocktails, four Polynesian-type drinks which capitalize on the growing popularity of rum-based drinks.

The Banana Colada and the Strawberry Colada proved popular because they are also rum-based. Another successful seller was an addition to the Arrow line — Arrow Café Orange.

While Yukon Jack Canadian Liqueur, introduced in 1977, isn't new this year, it's one of the most successful new products of recent years, and this year's shipments increased almost 50 percent to almost 150,000 cases.

In the past five years, the Spirits Group has introduced more than 50 new products. Almost two million of the cases sold this year were products that didn't exist five years ago.

Sales of several other brands also were up impressively in the year, including Don Q Rum from Puerto Rico, and premium Irish Mist Liqueur. Both registered sales increases of nearly 14 percent. The wines of Beaulieu Vineyard, bearing one of the most prestigious names from the Napa Valley, also showed a good gain.

To manage its growing business, the Spirits Group made top level organizational changes strengthening and expanding five major functional areas — marketing, sales, manufacturing, planning and development, and financial operations.

To manage its growing business, the Spirits Group made top level organizational changes strengthening and expanding five major functional areas.

The marketing operation was restructured to provide for the expansion of several key marketing functions.

The sales staff was realigned to put greater emphasis on sales to the 18 control states, and more sales personnel were assigned to sell the full Heublein Spirits line in major metropolitan markets.

Several new posts were created in the manufacturing division to coordinate production with the expanded operations in sales and marketing. Production capacity also increased during the year as the new plant in Paducah, Ky. began producing several of Heublein's leading spirits brands.

The new position of vice president-planning and development was created, with the responsibility for strategic planning, sales services, market research, and systems and forecasting.

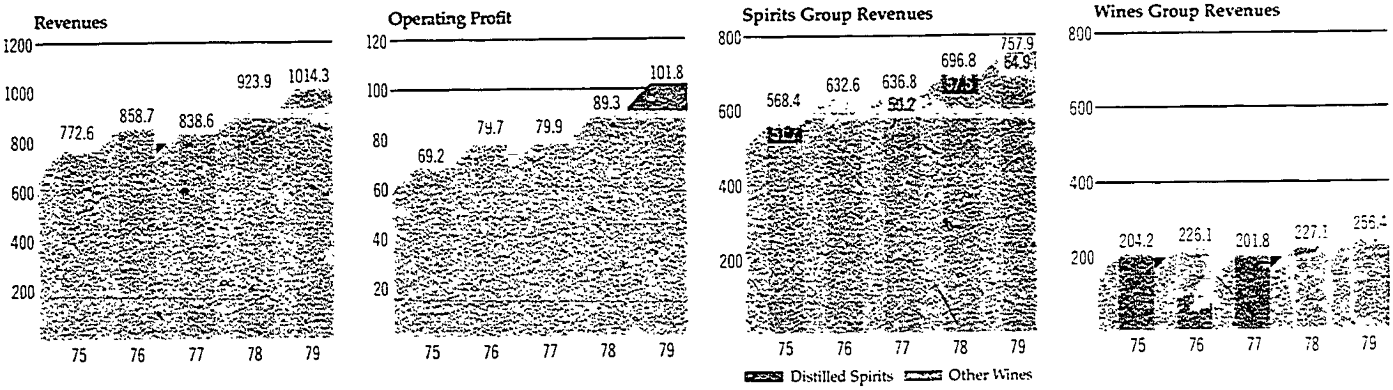
To provide more effective financial analysis, reporting and control, Spirits Group financial operations also were reorganized.

In summary, it was a very good year for the Spirits Group. Its business grew to record levels; it strengthened its organization, and increased sales of its major brands with more advertising, merchandising and promotion. It's well prepared for further growth and the opportunities that lie ahead.

Shortly after the close of the fiscal year, a Federal Trade Commission administrative law judge handed down a ruling that Heublein must divest itself of United Vintners, its major California wine company. According to the judge's decision, the acquisition in 1969 may substantially diminish competition in the wine industry.

Heublein's position remains that the acquisition increased competition. The judge's decision is not final or binding and Heublein has filed an appeal with the full Federal Trade Commission. Depending on the outcome of this appeal, Heublein has further recourse to review by the Courts.

BEVERAGE OPERATIONS (IN MILLIONS OF DOLLARS)



A final resolution of this matter could take several years.

Heublein is now the sole owner of United Vintners, having acquired, this year, the 18 percent interest formerly held by the Allied Grape Growers cooperative.

This facilitates the management of the operation in many respects, including managing the grape supply, for which U.V. spends about $60 million a year. A new grape management department was established at U.V. to further improve the grape procurement system. This involves the intricate job of keeping a balanced supply of quality grapes, of the right types to meet the changing market demand.

United Vintners' premium table wine, Inglenook Vineyards, celebrated its 100th year by topping five million cases in sales.

United Vintners' premium table wine, Inglenook Vineyards, celebrated its 100th year by topping five million cases in sales, an increase of 26 percent over the prior year. It's the 10th consecutive year that Inglenook has topped the growth rate of the California premium wine category.

As part of the Inglenook Centennial celebration this year, a $1 million restoration of the winery was completed.

The total standard wine category, where U.V.'s Colony brand competes, declined for the year, reflecting increased competition from higher- and lower-priced wines, both domestic and imported.

Colony Wines, a major volume brand, increased its share of the standard table wine category despite a small drop in unit sales. The Colony line was recently repositioned to a more upscale image, and that, along with several innovative products added this year, is expected to help boost sales in fiscal 1980.

A unique addition this year was Colony Chilled Light Burgundy, the first American red wine designed to be served chilled. U.V. also expanded distribution of Jacare, its proprietary line of three premium white and rosé wines, which is one of the fastest-growing brands in the premium market.

Sales of dessert wines and refreshment wines continued to decline, as expected, in keeping with the general industry trend. Despite lower sales, refreshment wines such as T.J. Swann continue to be strong contributors to United Vintners' profitability.

Capital improvements designed to increase efficiencies and production were made at the wineries in Reedley, Oakville and Madera and a new technical center was completed at Madera, the largest U.V. winery.

When Heublein acquired United Vintners, the California wine industry was in the midst of a major transition from sweet wines to dry table wines. The thrust of Heublein's efforts ever since has been to produce and market high quality table wines, so that United Vintners' product mix today comprises 80 percent dry wines and only 20 percent dessert wines.

United Vintners today is a different company than it was 10 years ago, with its products better attuned to consumer tastes.

United Vintners today is a different company than it was 10 years ago, with its products better attuned to consumer tastes. It has the production and research facilities, as well as the marketing expertise, to perform successfully in this growing industry.

THE HIGHLIGHT of Heublein's domestic Food Operations in fiscal 1979 was the sustained turnaround in sales at Kentucky Fried Chicken stores, while real growth for most of the fast food industry was declining or flat at best.

This reflected the increasing effectiveness of the Food Service and Franchising Group's comprehensive "back to basics" action programs initiated two years ago.

Dollar sales and volume were up for 52 consecutive weeks over the prior year in company-owned KFC restaurants.

- For all 52 weeks of fiscal 1979 both dollar sales and volume per store were up over the prior year in company-owned restaurants.
- Average annual per store sales for these units were up 14 percent to an all-time record high of $325,000.

Our Grocery Products Group also marked up a number of successes.

- Sales of Grey Poupon, the nation's leading Dijon-style mustard, reached record levels.
- Our Ortega brand of Mexican-style foods again outpaced this fast-growing segment of the grocery products market.
- A.1. solidified its position as market leader in the steak sauce category despite a slip in unit growth as a result of sharply reduced beef consumption in the nation.

Total revenues from Food Operations, which includes the Grocery Products Group as well as the Food Service and Franchising Group, were down two percent for the year to $413,923,000 from $423,742,000, while operating profit was up 11 percent to $38,174,000 from $34,409,000.

The sales decline was due mainly to the disposition late in fiscal 1978 of Grocery Product's Regal Foods subsidiary, and to the phasing out of KFC's equipment and supply operation. With sales of these units excluded, food revenues were up eight percent.

The strong sales gains at Kentucky Fried Chicken followed an acceleration at company-owned units of action programs in the nine priority areas deemed essential to renewed vigorous growth of the system.

Those areas are: quality, service and cleanliness (QSC); value; product improvement; facilities improvement; improved marketing; employee motivation; employee training; improved operations and controls; and greater cost efficiency.

In summary, here's what KFC accomplished toward each priority in company-operated stores:

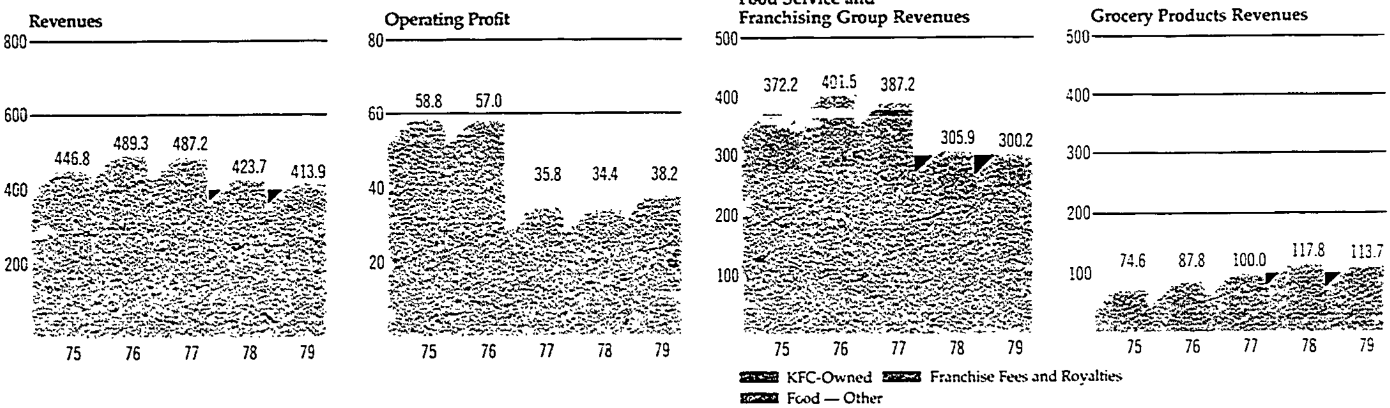
Kentucky Fried Chicken had only a six percent increase in prices, which further enhanced its relative value.

1. QSC — The intensive QSC inspection program begun last year was continued and results were computerized to expedite management analysis and follow-up. Average QSC inspection scores have climbed to the low 90's from the 70's two years ago. The goal is to have virtually all stores consistently score over 90 percent on QSC inspections.

2. Value — While most other quick service chains increased prices from 10 to 20 percent this year, KFC had only a six percent increase. This continued price restraint further enhanced KFC's relative value. Prices on several key menu items are below the prices the company charged before it restructured its menu and reduced some prices two years ago.

3. Product Improvement — Several improvements were made, including the switch to a larger ear of corn and a new corn-cooking

FOOD OPERATIONS (IN MILLIONS OF DOLLARS)



procedure that delivers better quality. Seasoned flour for chicken is now mixed in small batches in the store, rather than being pre-mixed, for improved product flavor. Also, a cole slaw developed by Colonel Sanders is being phased into use at company-owned stores where it will be prepared fresh daily.

4. Facilities Improvement — By year's end, more than 600 new image Kentucky Fried Chicken stores, many with additional seating and drive-thru windows, were in operation or under construction, including 221 company units. To encourage more franchisees to remodel to the new image design more quickly, the company established an image enhancement incentive plan. It provides for rebates of up to $10,000 on franchise fees from incremental sales for 30 months for stores that are converted to the new image by October, 1980.

5. Improved Marketing — The emphasis is on better marketing strategies and better execution of those strategies. The national advertising theme, "It's so nice to feel so good about a meal," introduced in 1978, has proven effective and will be used again in 1980. Most local KFC advertising is using the same theme, creating the "campaign effect" missing in previous years. In addition, in-store merchandising for corn and soft drinks was substantially improved, and extended store hours were used effectively in many markets.

6. Employee Morale and Motivation — Morale is definitely up at Kentucky Fried Chicken compared to two years ago. One reason is increased management presence in the field. Another morale-booster is a bonus plan, which rewards superior performance in sales, QSC, cost control, increased profits, and more recently, return on investment. This program recognizes that KFC's success ultimately depends on the everyday performance of its store employees. A third factor in boosting morale is an improved training program.

7. Training — Better training is helping to produce more highly skilled and motivated personnel. Almost 800 company employees and franchisees completed courses this year in store management, human resources, and finance at KFC's National Training Center in Louisville. In all, more than 2,100 KFC personnel participated in training programs this year. The company has also established training programs in each district, and the highly effective STAR (Store Training and Rating) audio-visual system is used at all company stores and by almost half of the franchisees.

8. Procedures and Controls — A daily operating control system now employed in all company stores and many franchised units has improved labor and production planning and made store managers more profit-conscious. In addition, the electronic point-of-sale registers installed in all company stores are providing KFC headquarters and field management with daily reports on sales, costs, inventories, hours of labor and other variables. These and other innovations, including an expanded internal audit program enable management to respond much more quickly and effectively to emerging problems or opportunities.

9. Cost Efficiency — Management has not hesitated to spend substantial amounts for needed improvements at KFC, but at the same time tightened up spending wherever possible. For example, by spending advertising dollars more efficiently, consumer impact was increased while costs were reduced. Similarly, despite an increase in chicken costs, total product costs as a percent of sales actually declined from year-earlier levels.

Because the ultimate success of the KFC system will depend on

the system-wide execution of these priority programs, management has made extra efforts to provide leadership and service to the franchisees. These efforts have been warmly received and company-franchisee relations today are excellent. Franchisee regional associations also are providing positive leadership.

The challenge facing Kentucky Fried Chicken in 1980 is to sustain the growth achieved this year. This will depend, to some extent, on external environmental factors beyond management's control, such as the gasoline shortage, inflation, commodity prices, and the length and severity of the economic slowdown.

Despite potential short-term problems, the KFC system has renewed confidence in its long-term outlook.

Despite these potential short-term problems, the Kentucky Fried Chicken system has renewed confidence in its long-term outlook. The system has emerged from the trials of the past two years as a better managed and more determined organization. In coming years, company personnel and franchisees will continue to concentrate on timely execution of the action plans which already have done so much to restore the KFC system to good health.

While giving major emphasis to its KFC action programs, the Food Service and Franchising Group also launched several new programs in the Zantigo America's Mexican Restaurant chain. The menu was restructured to simplify the ordering process and improve operating efficiency. In addition, new marketing and advertising programs were initiated, and development work started on a new, lower cost store design.

Management believes the Zantigo concept has significant growth potential, and that these new programs will go far to help Zantigo meet the rigorous performance standards established for expansion of the system. At year's end 40 company stores and 37 franchised units were in operation.

The company sold or closed its 24 H. Salt Seafood Galleys this year. One hundred twenty-four H. Salt franchised units continued to operate successfully.

The Grocery Products Group, which had been growing rapidly in recent years, had its growth slowed in 1979 by a combination of unusual circumstances in the supermarket industry, source of two-thirds of the Group's sales.

However, excluding sales of the Regal Foods subsidiary, which was sold late in fiscal 1978, the Group's sales showed a six percent gain.

Better training is helping to produce more highly skilled and motivated personnel.

The key factor affecting the Grocery Products Group — and most other large suppliers — was the decision made by many supermarket chains and wholesalers to reduce their inventories in response to the high cost of short-term borrowing. As a result, the Group's billings suffered for much of the year, even though consumer demand for its products remained strong.

There were indications in the fourth quarter that inventory retrenchment had ended and a more normal shipment pattern had resumed for the Grocery Products Group.

The Group also felt the impact of soaring beef prices and the resultant decline in beef sales. This trend put abnormal pressure on the entire meat sauce category, including A.1. Steak Sauce, which had a drop in volume.

Despite these pressures, supermarket sales of A.1. held up well and the brand remains

America's No. 1 steak sauce by a wide margin. Sales to the restaurant business, where A.1. is a staple, continued to grow.

A new national TV advertising campaign for A.1. was launched late in the year after highly successful market testing. Exploiting the consumer trend to less expensive cuts of beef, it promotes the use of A.1. to turn hamburgers into "steakburgers."

A.1. supermarket sales held up well and the brand remains America's No. 1 steak sauce by a wide margin.

Grey Poupon, the nation's leading Dijon-type mustard, had another exceptional year, benefiting from an expanded advertising and promotional campaign. To help spread the word about the many uses of this premium quality product, a unique Mustard Information Bureau was established. Under its auspices, a gourmet chef-spokesman for Grey Poupon participated in almost 200 radio, TV and newspaper interviews in 45 cities. The campaign generated more than 25,000 requests for additional information about Grey Poupon.

The Ortega brand of Mexican foods continued to do well in this fast-growing and highly competitive category. Ortega Taco Shells and Kits again outpaced the market and strengthened their leading position at the "cutting edge" of the Mexican food boom.

Ortega chiles, sauces and beans, marketed primarily in the area west of the Mississippi, made good progress in gaining broader distribution. The full Ortega line will be promoted next year with a new television advertising campaign featuring professional golfer Nancy Lopez as spokesperson for the brand. Ortega brand chiles and sauces continue to be the best-selling products of their type.

Mexican foods are one of the most exciting growth categories in the food industry. With its Ortega brand, the category leader, the Grocery Products Group is well-positioned to share in this growth.

Ortega Taco Shells strengthened their leading position at the "cutting edge" of the Mexican food boom.

The foodservice end of the Group's business again grew faster than the supermarket business as meals away from home continued to win a larger share of total food expenditures. The Foodservice Department, which now accounts for a third of sales, continued its aggressive sales and marketing programs to restaurants, hotels, industrial and school cafeterias, the military, and other away-from-home eating places.

Consumer demand for Grocery Products Group products remained strong.

There was added emphasis on increasing productivity at all Grocery Products Group production facilities through a combination of better planning, better training and improved equipment. The result was higher productivity at the main processing plant in Oxnard, California, at the Ortega Corn Products plant in Stoughton, Wisconsin, and at the Hart's Bakeries in Texas, Georgia and Ohio.

Good results also were obtained by a number of process and profit improvement programs, focusing on utilization of by-products, substitution of more readily available raw materials, and the application of more stringent quality control standards.

Heublein International Operations

WITH GENERALLY FAVORABLE business conditions prevailing this year in most of Heublein's major overseas markets, the company's international business continued to expand rapidly.

• Total international revenues for the year increased 25 percent to $340,891,000 from $272,523,000. This represents a 20-fold increase in the past decade.

• Operating profit was up 31 percent to $30,038,000 from $22,983,000.

• Sales of Smirnoff Vodka abroad topped five million cases, led by the United Kingdom, where Smirnoff sales exceeded 1.5 million cases.

• The number of Kentucky Fried Chicken stores abroad reached the 1,000 mark and consumer demand continued to increase in almost all major markets.

Heublein's international operations have two major components: Heublein Industria e Comercio, Ltda., the large spirits and wine company in Brazil, and the Heublein International Group, which manages food and beverage activities in all other world markets.

Heublein Industria e Comercio had a 19 percent increase in revenues for the year. Heublein International grew even faster, with revenues up 29 percent.

In Brazil, Heublein's largest single market outside the U.S., the company had good gains in almost all major product categories, including whisky, cognac, wine and aperitifs.

Heublein Industria e Comercio stepped up the pace of its marketing activities.

Heublein Industria e Comercio markets Brazil's top-selling brands in all these categories. With Smirnoff and Popov, it also has the leading brands of vodka, a category that is relatively new to Brazil but is growing rapidly.

Brazil is one of the world's most exciting growth areas. Its population of 112 million is projected to increase to 200 million in the next 20 years. Some 54 percent are under 20, and only 20 percent are over 40, meaning tremendous growth in the mass market of young adult consumers in the near future.

Heublein's strategy in Brazil is to continually strengthen its management and marketing capabilities, to realize fully the growth potential inherent in these demographic trends.

Brazil is not without its difficult problems, however. Two of the biggest are the continuing high rate of inflation — more than 40 percent this year — and the steady flow of government regulations that continually change the ground rules for business.

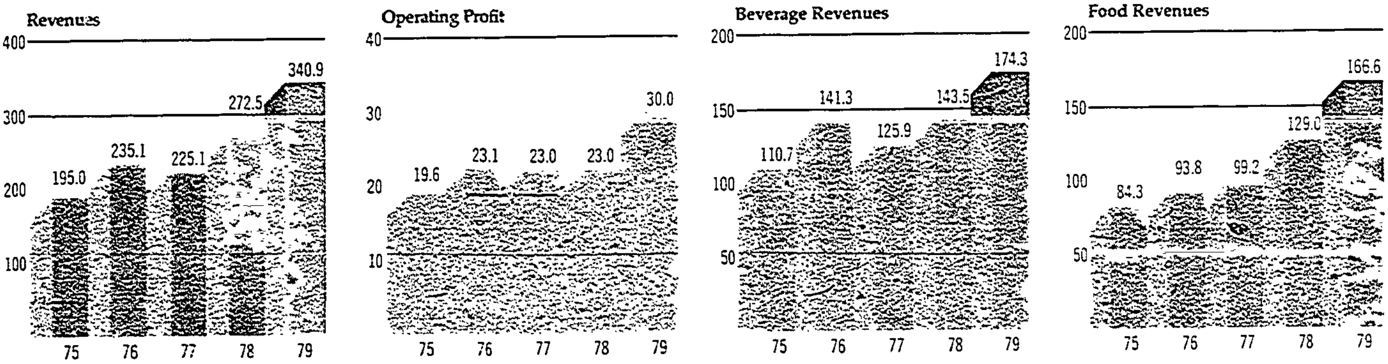
Under these conditions, management must be simultaneously firm yet flexible. It must have tight control over all aspects of the business, with special emphasis on control of accounts receivable, inventories, short-term borrowings and other key elements of the balance sheet. Short-term borrowings, which had been as high as $50 million two years ago, were dramatically lower this year, and only moderate seasonal borrowings are anticipated in the future.

The management team of the Brazilian operation was strengthened again this year by the addition of several key managers and by the installation of a new computer system that provides management with timely, comprehensive information on all phases of the business.

Management and marketing in Brazil were strengthened to meet the growing opportunities in that market.

Along with the emphasis on better financial controls, Heublein Industria e Comercio also stepped up the pace of its marketing

INTERNATIONAL OPERATIONS (IN MILLIONS OF DOLLARS)



activities. Innovative advertising and special promotions helped to increase consumer awareness of Heublein's brands. Improved packaging was developed for many key brands and numerous new products were created for introduction in fiscal 1980.

In a move that could have important long-term benefits, an export department was established to develop systematically new markets abroad for Brazilian wines and spirits.

Heublein's International Group took full advantage of the generally favorable economic conditions in most key markets.

In sum, considerable progress was made in restructuring and strengthening Heublein Industria e Comercio. The company is now better prepared than ever before to serve the burgeoning market in Brazil, and to become an important contributor to the company's profitability.

Elsewhere on the world scene, the International Group took full advantage of the generally favorable economic conditions which prevailed in Japan, Australia, the United Kingdom and most other key markets.

There was continued growth in international sales of Smirnoff, which now exceed five million cases a year. A milestone was reached in the United Kingdom which became the first country outside the U.S. to sell more than 1.5 million cases in a year.

Smirnoff had outstanding gains in several other countries, spanning the globe from Sweden and Norway, where sales increased almost 20 percent, to the Caribbean free trade area, where they increased more than 30 percent. Double-digit gains also were achieved in Belgium, France, Germany and Ireland.

The vodka market is still relatively undeveloped in many of these countries. To help capitalize on Smirnoff's growth potential in such markets, the International Group launched a more aggressive brand support program. This will mean better, more consistent advertising, merchandising and promotion for Smirnoff wherever it is sold.

The only negative note of consequence for Smirnoff occurred in Iran, where a growing market, which had reached the 300,000-case level, was eliminated by the new government's total ban on spirits and wine consumption. Despite this one extraordinary situation, Smirnoff solidified its position as the most popular international spirits brand.

Higher sales also were achieved for wines shipped by J.M. Fonseca Exportador, the International Group's joint marketing venture in Portugal.

International sales of Smirnoff now exceed five million cases a year.

The Fonseca winery produced and shipped more than 1.5 million cases of wine this year, the highest level of sales in that company's history. Its sales internationally grew more than 20 percent and several new markets were opened, including the United Kingdom.

The international market for Heublein's California wines is small, but the International Group had some notable successes with its expansion program. Sales in Canada and the Caribbean doubled this year, and plans were made for introducing Inglenook Vineyards wines in Mexico.

Higher sales of Jose Cuervo Tequila, Smirnoff and other products highlighted a successful year for Heublein's joint venture in Mexico with the Cuervo Group, producers of Jose Cuervo Tequila. The white spirits category is expanding in Mexico — the most populous Latin American nation after Brazil — and Heublein is well positioned to share in that growth.

Like its beverage business, the International Group's food business had impressive gains for the year. By year's end, there were 1,000 company-owned and franchised Kentucky Fried Chicken stores in operation — an increase of 104 over last year — serving customers in 45 countries of Asia, Latin America, the Caribbean, Europe and Africa.

The International Group's food business had impressive gains for the year.

The three largest overseas markets for Kentucky Fried Chicken are Australia, Japan and the United Kingdom, with more than 600 stores among them. All these key markets improved their performances this year.

Starting last year, KFC operations in Australia were completely restructured and a comprehensive program was launched to upgrade all phases of the business. The program was accelerated this year, generating a 19 percent gain in revenues.

Key elements contributing to this performance included a renewed emphasis on quality, service and cleanliness; an expanded menu, featuring rotisserie chicken, a favorite in Australia; an improved training program; and new equipment and systems to increase productivity and to control labor costs.

In addition, a major facilities improvement program was launched, built around a standard new image store design.

Similar programs, though on a somewhat smaller scale, were carried out in Japan and the United Kingdom. In Japan, where Kentucky Fried Chicken has some 90 percent of the fast-food chicken business, 48 new stores were opened and average sales-per-store increased 38 percent. Sales volume in Japan, in U.S. dollars, is now double what it was just two years ago, due in part to the growing strength of the yen.

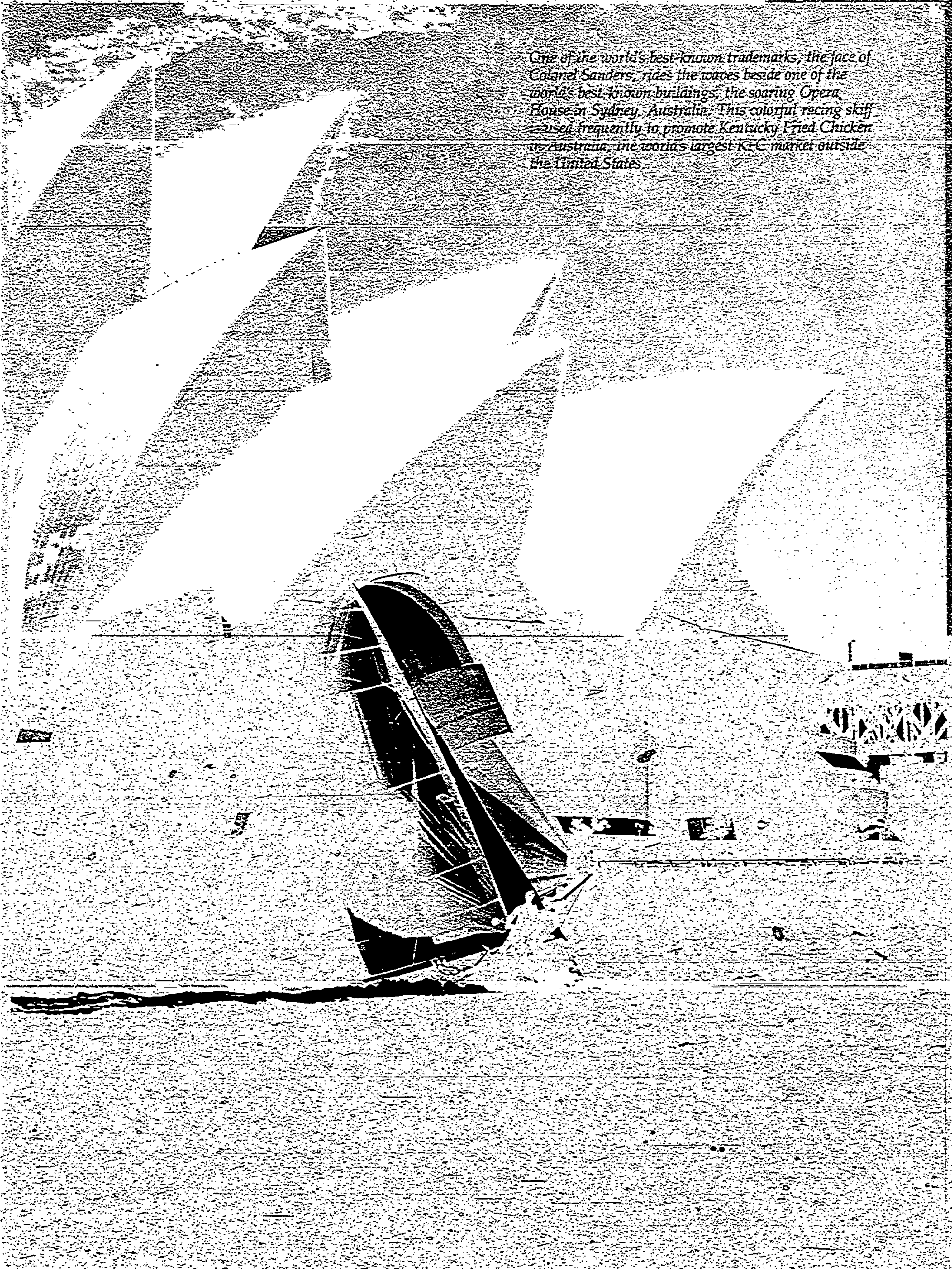
The year's results confirmed that Kentucky Fried Chicken has an almost universal appeal.

Kentucky Fried Chicken sales in the United Kingdom increased more than 40 percent, from a lower base than exists in Australia or Japan. Because operations in the United Kingdom continued a strong volume trend, there was an expansion of the franchising program, which is the major thrust for the future growth of the market.

Consumers in Japan and the United Kingdom still tend to regard Kentucky Fried Chicken as basically a snack food. A key long-term goal in both countries is to change the perception to that of a full meal, just as in the U.S.

Another outstanding performance was turned in by Kentucky Fried Chicken stores in the Caribbean and Central America, where franchisees have the highest per-store averages in the entire system. The five stores in Trinidad, for example, have per-store averages close to $1 million a year, and the 17 in Puerto Rico have an average of more than $860,000.

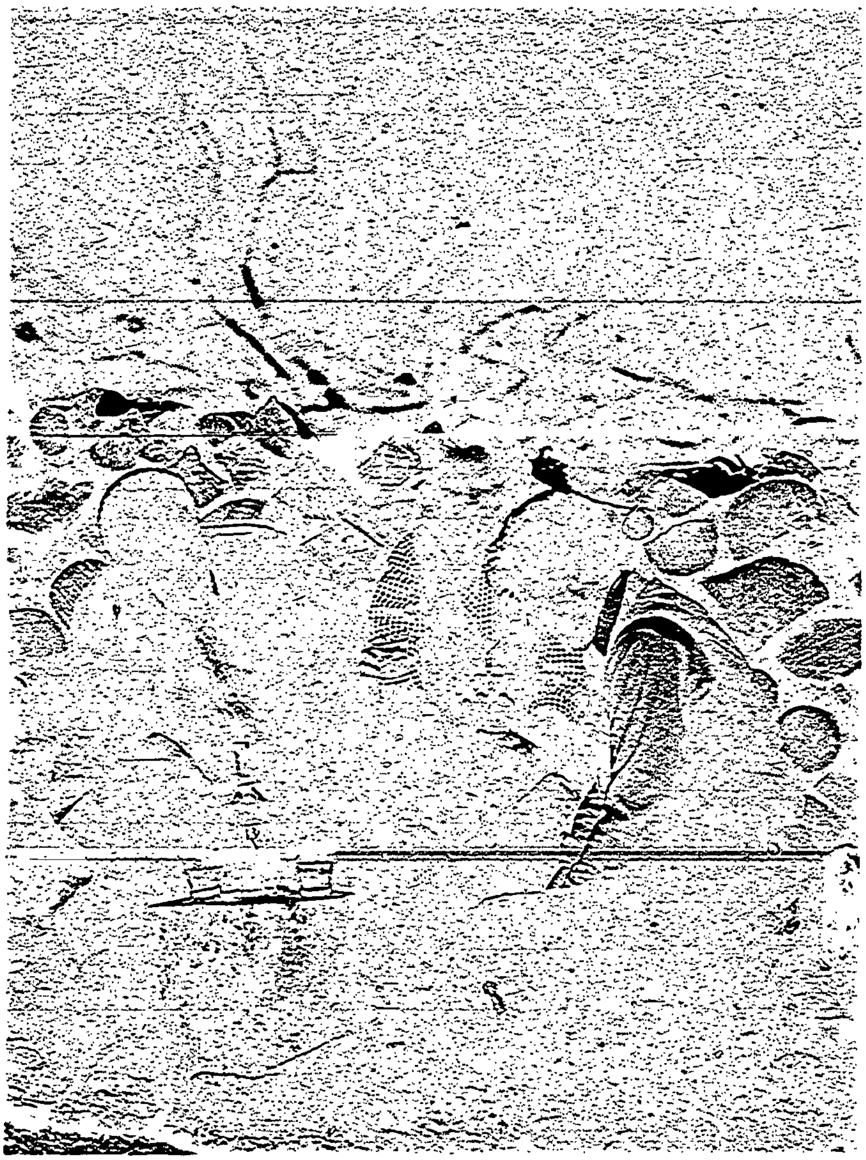
The year's results confirmed that Kentucky Fried Chicken has an almost universal appeal, and that significant growth potential still remains to be tapped in many world markets.

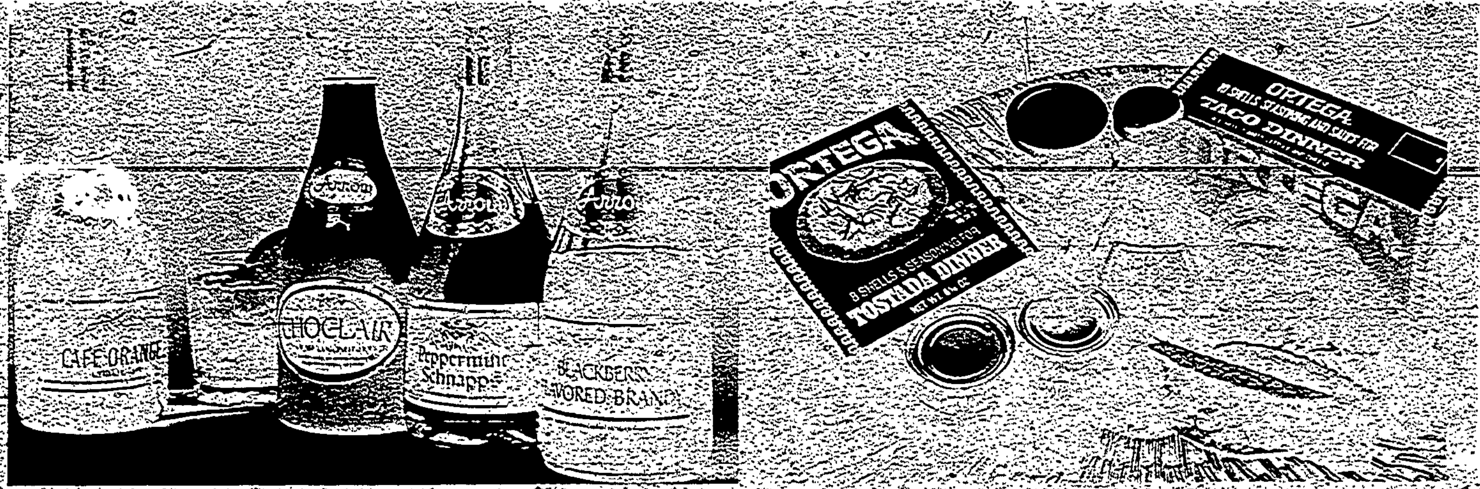


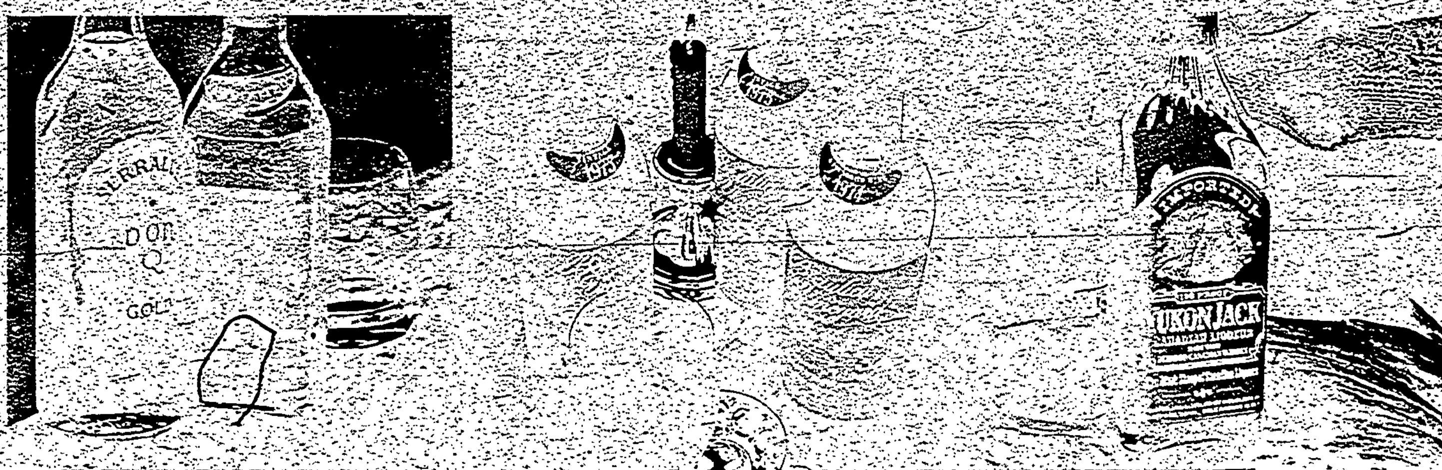
One of the world's best-known trademarks, the face of Colonel Sanders, rides the waves beside one of the world's best-known buildings, the soaring Opera House in Sydney, Australia. This colorful racing skiff is used frequently to promote Kentucky Fried Chicken in Australia, the world's largest KFC market outside the United States.

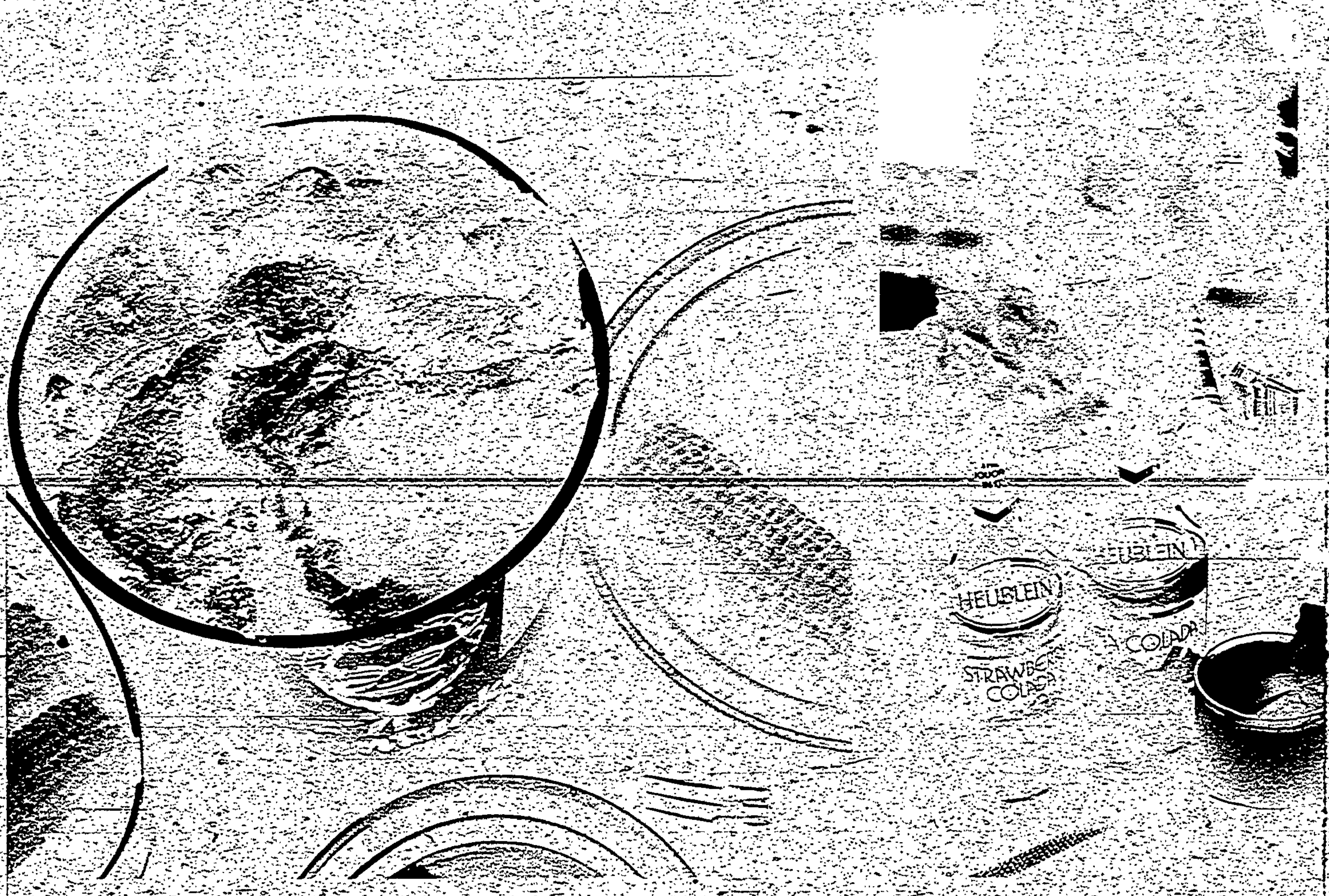

Black
& White

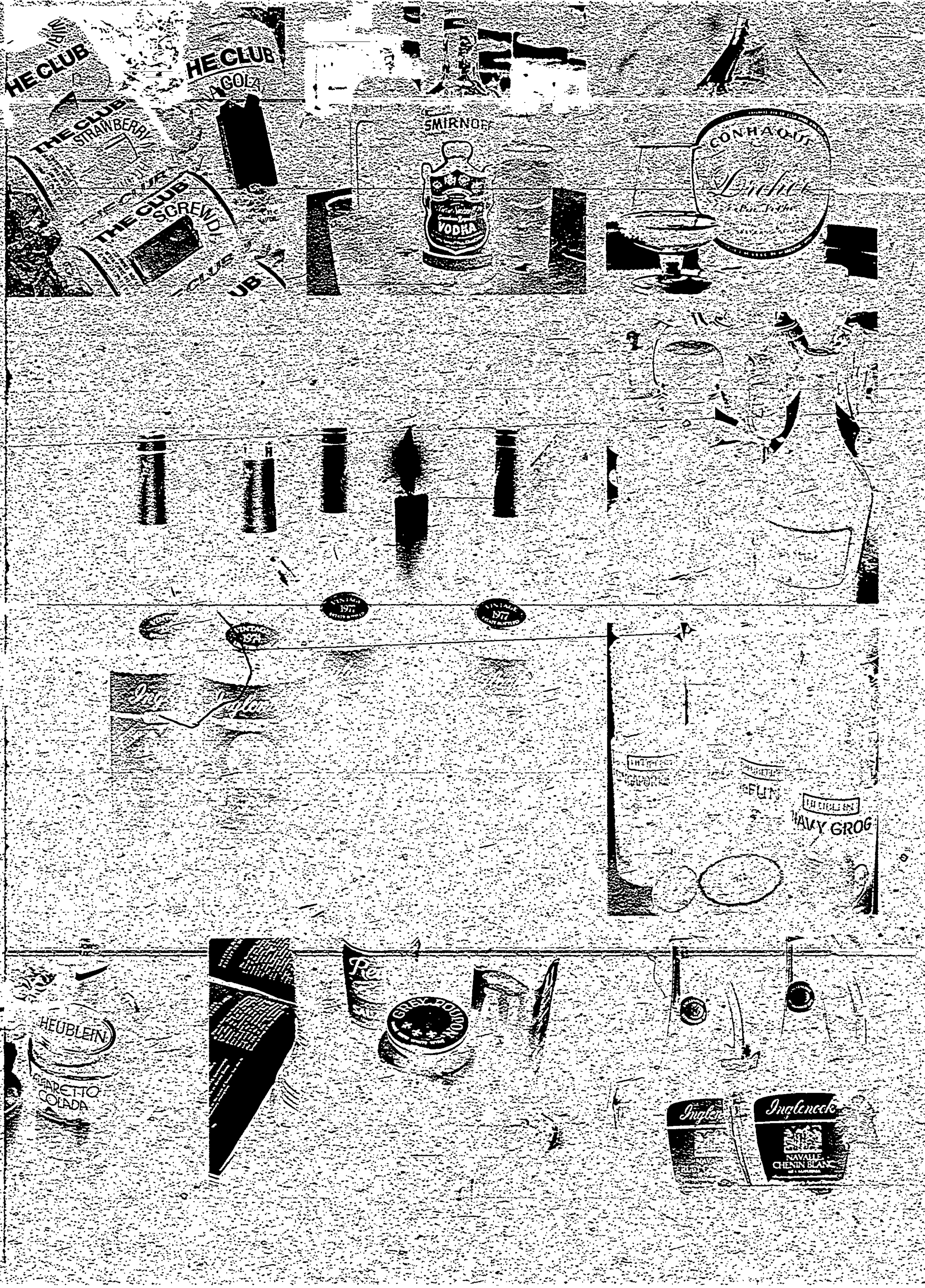
Home-grown vegetables and a neatly-stacked supply of firewood have become prominent features of today's lifestyle for millions of Americans. After the chores are done, it's pleasant to relax with a handy Club Cocktail, a smooth Black Velvet drink, and a convenient, delicious Kentucky Fried Chicken meal. Like home gardens and wood stoves, these popular Heublein products are closely attuned to contemporary consumer tastes.




CAFE ORANGE
CHOCLAIR
Peppermint Schnapps
ORTEGA
TOSTADA DINNER
ORTEGA
TACO DINNER

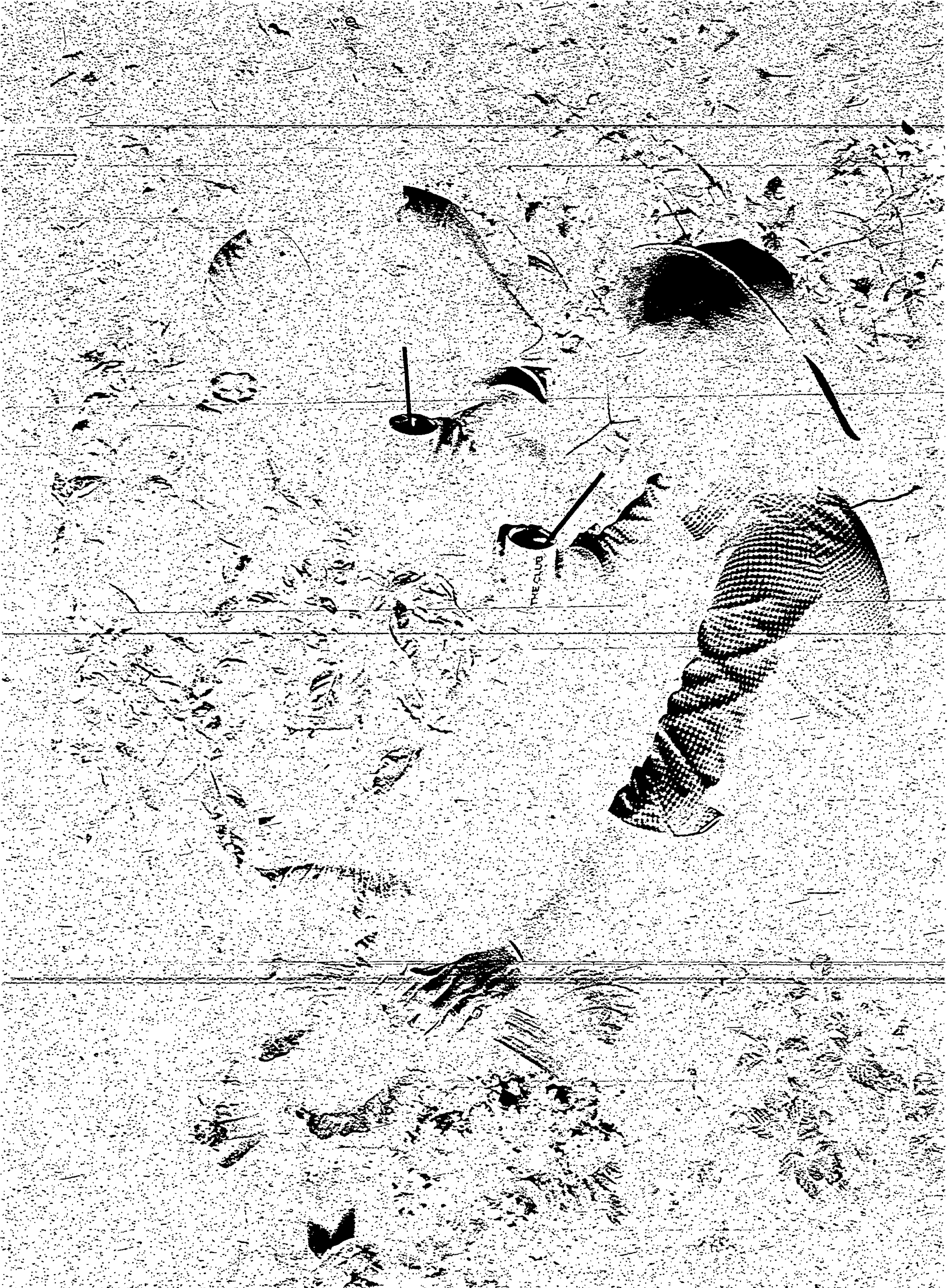

IMPORTED
YUKON JACK

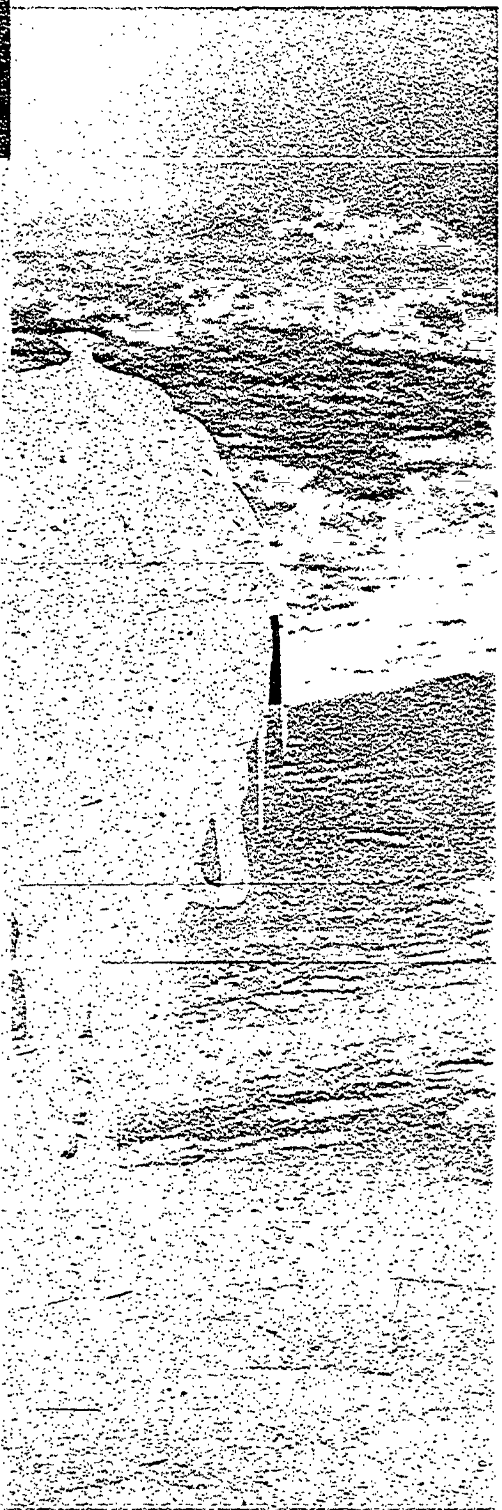

HEUBLEIN


THE CLUB
STRAWBERRY
THE CLUB
SMIRNOFF
VODKA
CONHAQUE
VINTAGE
1977
HEUBLEIN
NAVY GROG
HEUBLEIN
COLADA
GREY POUPON
Inglenook
NAVALLE
CHENIN BLANC

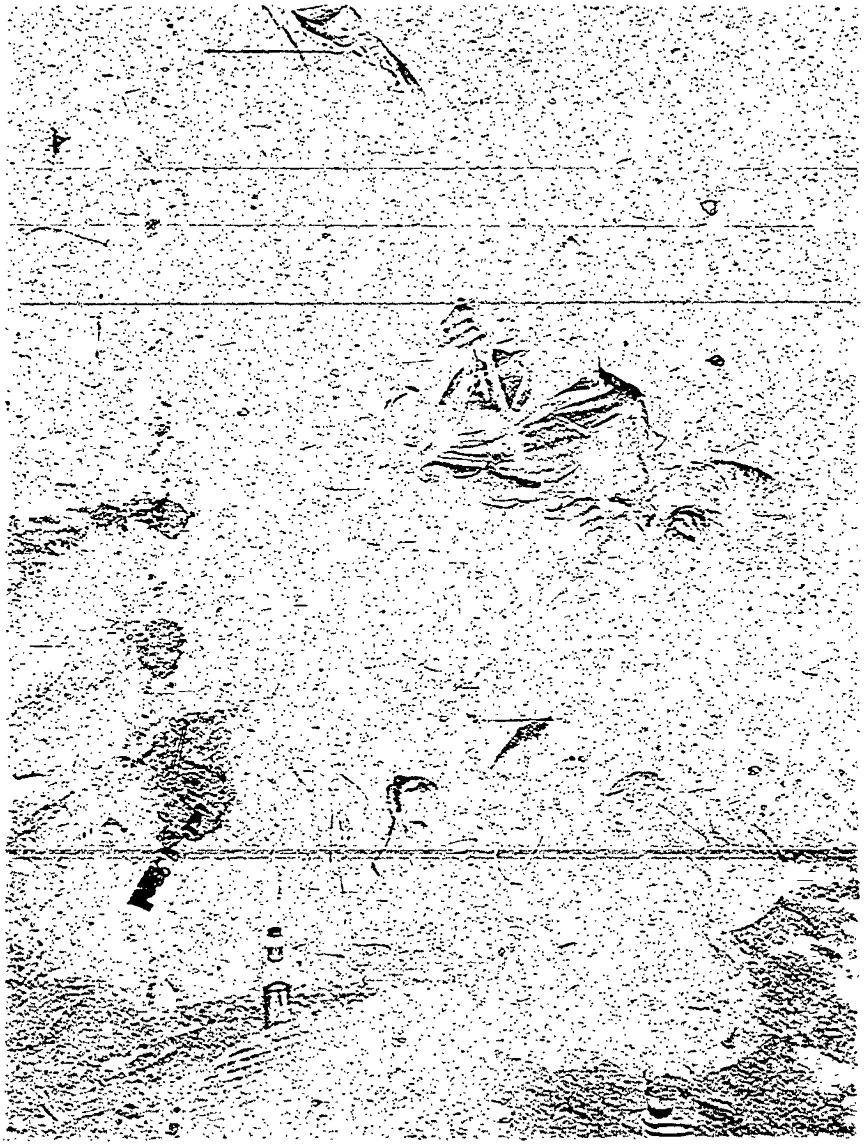
Heublein's reputation as one of the leading U.S. marketing companies has been built on its ability to conceive and market premium food and beverage products.

Pictured here and on the following pages are some of the premium brands which Heublein has built into consumer favorites in markets all around the world.

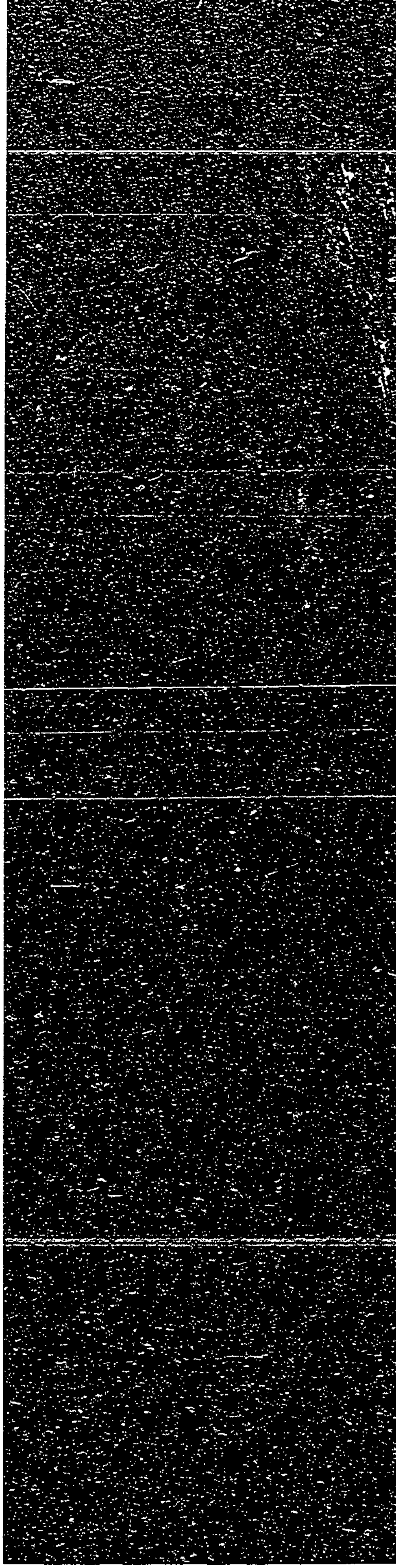

THE CLUB

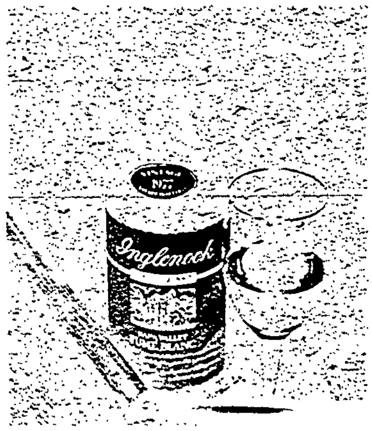


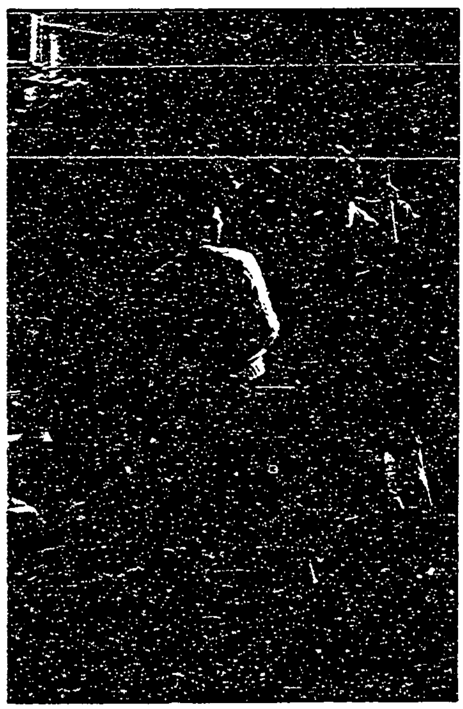
Here's a couple who know how to enjoy life to the fullest – a brisk oceanside ride at sunset, refreshing Smirnoff and tonic for their thirst, and hearty hamburgers with A.1. Steak Sauce for their appetite. In 1979, Smirnoff and A.1. remain the best-selling products of their types, by a wide margin, as they continue to satisfy millions of discerning consumers from coast to coast.

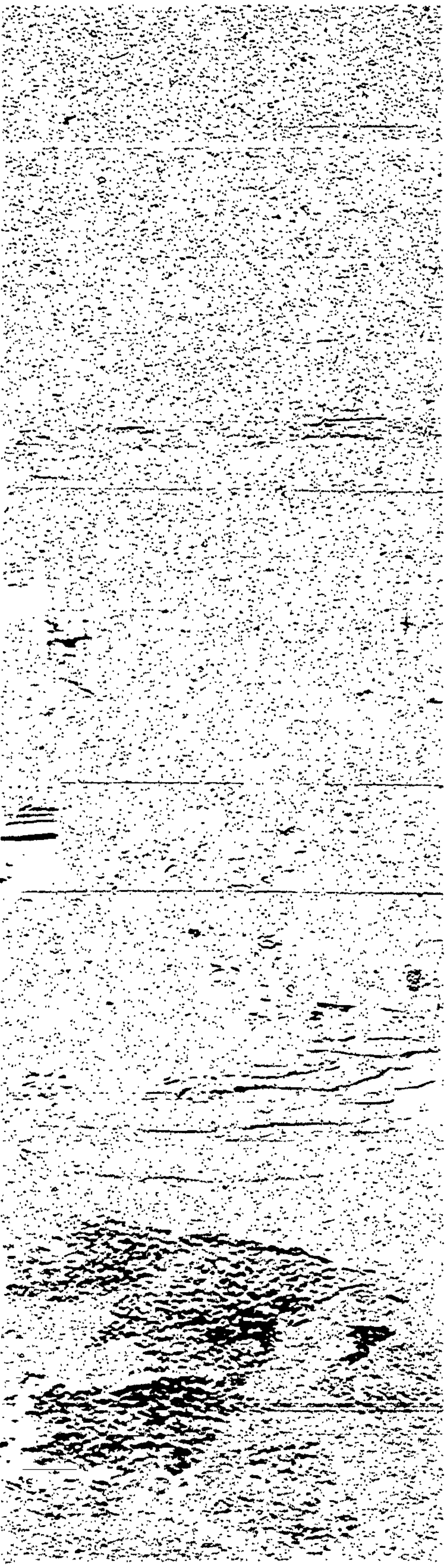


Formula for a perfect day in the San Francisco area: a ride on a cable car, a walk through a majestic redwood forest, and an impromptu picnic beside colorful floral plantings. The picnic is made even more enjoyable by a bottle of flavorful Fumé Blanc from Inglenook Vineyards, producer of America's fastest-growing family of premium wines. More people than ever before enjoyed the premium wines of Inglenook in 1979, as this historic Napa Valley winery celebrated its 100th year in record style by topping five million cases in sales.



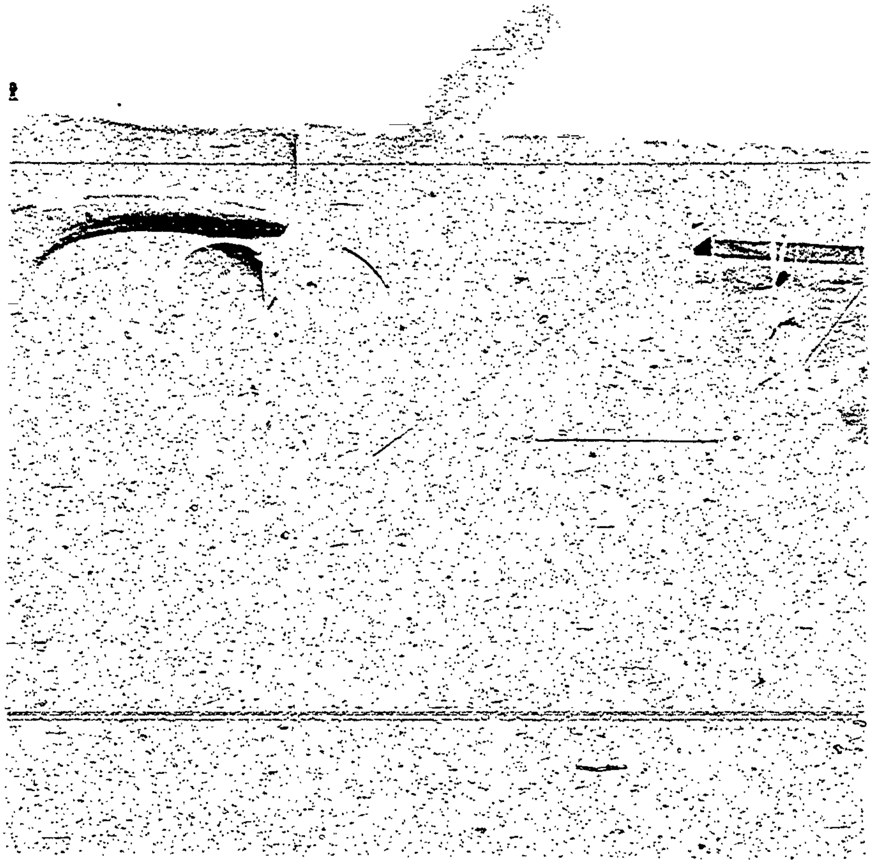

Inglenook

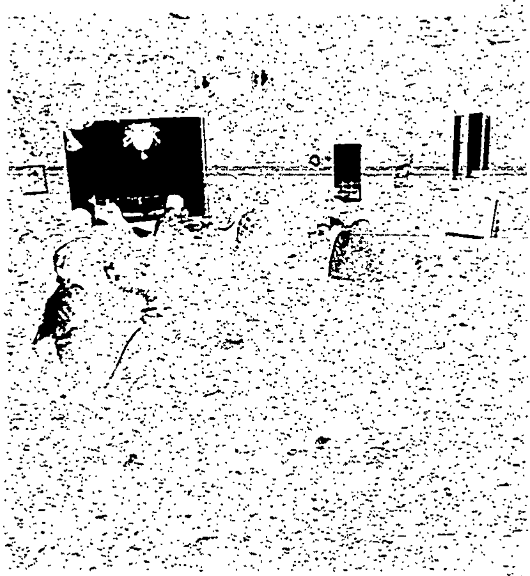


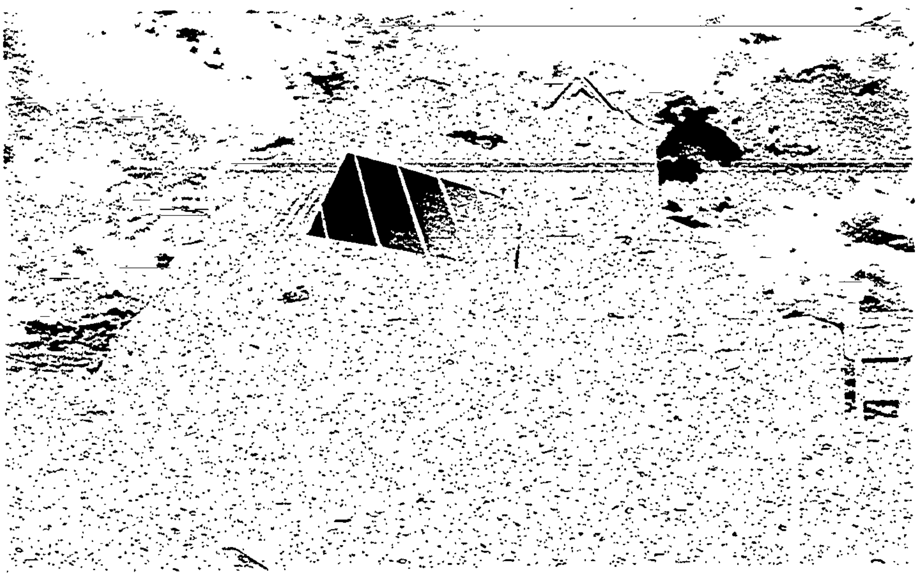


What better way to relax from the cares of the world than to enjoy a refreshing swim in the company of good friends? The choice of beverages for this get-together includes two increasingly popular drinks from Heublein . . . the flavorful Heublein Pina Colada and premium Jose Cuervo Gold Tequila. For a tasty snack afterwards, there's an ample supply of crisp Ortega tacos and hearty hamburgers with A.1. Steak Sauce.

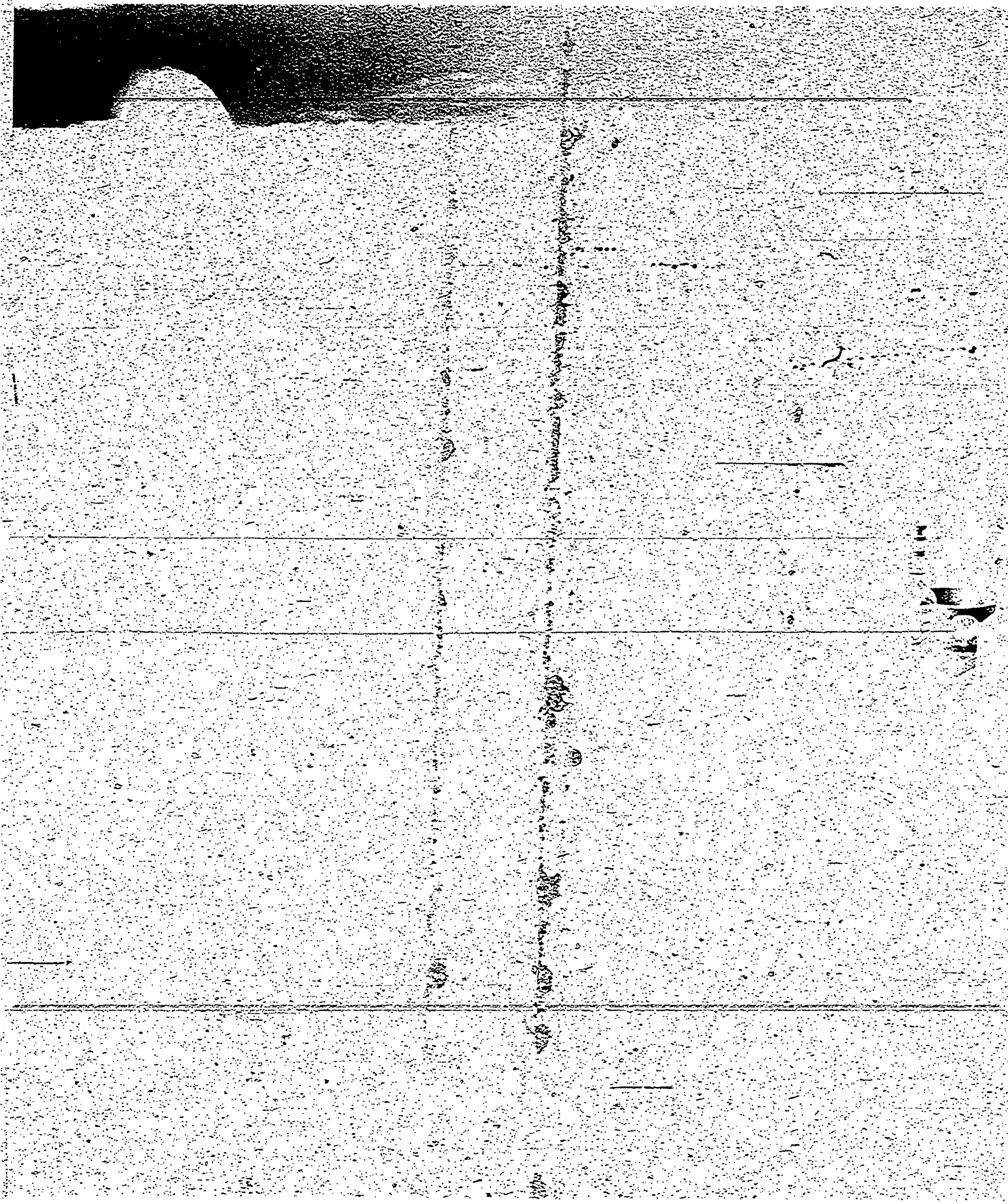
With 4,300 restaurants from coast to coast – many of them featuring the attractive new image design – Kentucky Fried Chicken is part of the scene wherever there are hungry Americans seeking good value in a meal. Beyond its regular network of stores, KFC often sets up temporary units at state fairs and other major spectator events. Shown here is the KFC tent store that serves tens of thousands of customers at the annual Experimental Aircraft Association convention in Oshkosh, Wisconsin.

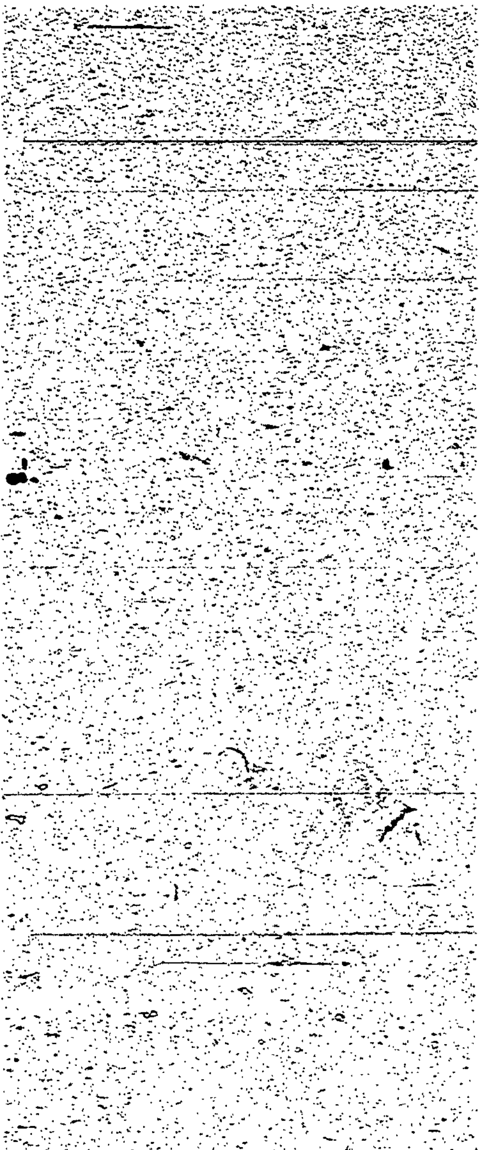




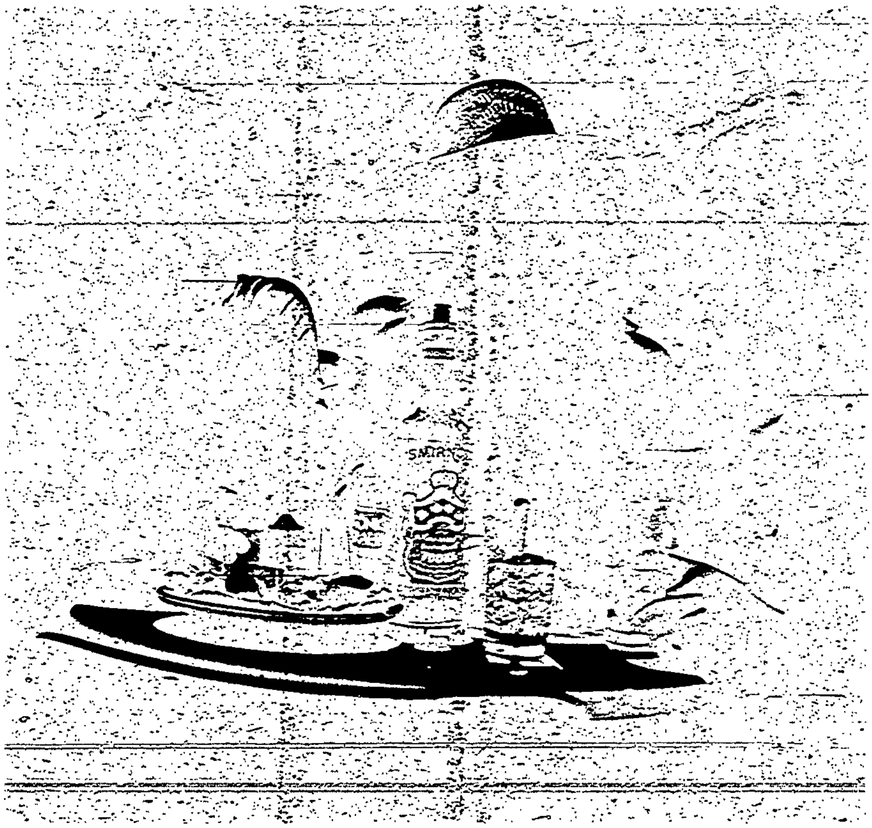


Left, a new image store
in Milwaukee, Wisconsin.

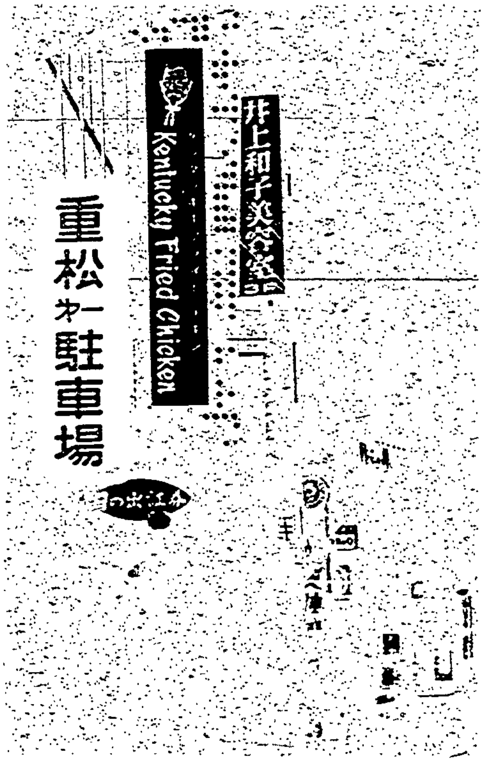


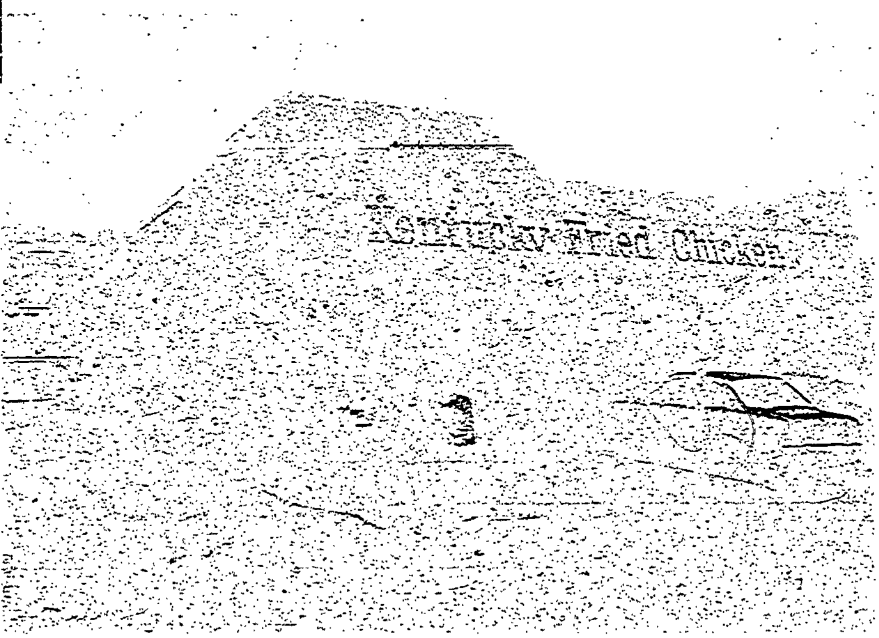


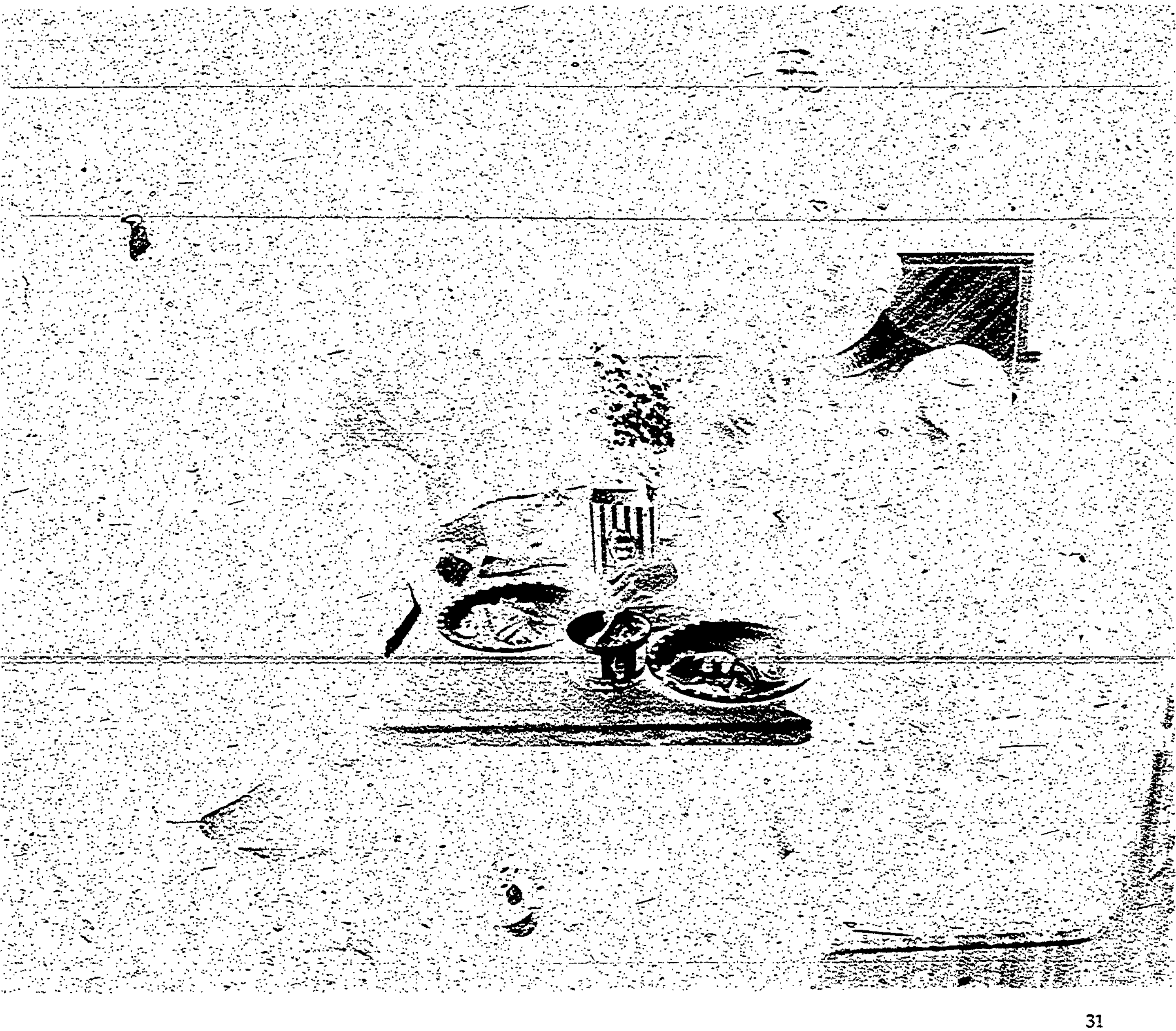
Brazil is Latin America's most populous nation and ranks as one of the world's truly exciting growth areas. Heublein participates in this expanding market through Heublein Industria e Comercio, Ltda., by far the leading producer of wines and spirits in Brazil. With a broad line of popular brands, Heublein's sales in Brazil increased substantially this year, and the company is positioned to serve Brazil's fast-growing young adult market.



In 45 countries around the world – including the United Kingdom and Japan (this page) and Australia (facing page) – consumers have come to know Kentucky Fried Chicken for its good taste and good value. International sales of Kentucky Fried Chicken showed another strong increase this year and the number of stores abroad reached the 1,000 mark, demonstrating again the almost universal appeal of this delicious chicken meal.







Summary of Accounting Policies

Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. The Company's investments in affiliated companies (not majority-owned) are accounted for on the equity basis, and the Company's operating results include its share of their net income. All significant intercompany transactions are eliminated in consolidation.

Inventories
Inventories are stated at the lower of cost or market, cost being determined by the first-in, first-out method, except certain bulk whiskey and wine, the cost of which has been determined by specific lots.

Whiskey and wine in storage for aging over a number of years are included in current assets in accordance with industry practice.

Property, Plant and Equipment
Property, plant and equipment are carried at cost. Depreciation and amortization generally are computed by the straight-line method over the estimated useful lives of the respective assets or the terms of the related leases. On sale or retirement, the asset cost and related accumulated depreciation are removed from the accounts, and any related gain or loss is reflected in income. Expenditures which extend the useful lives of assets are capitalized while maintenance and repairs are charged to expense as incurred.

Cost in Excess of Net Assets of Purchased Businesses, Trademarks, Contracts and Franchises
Cost in excess of net assets of purchased businesses is being amortized over periods ranging from 5 to 40 years except for $4,016,000, relating to an acquisition prior to November 1, 1970 which is not being amortized as, in the opinion of management, there has been no diminution in value.

Trademarks, contracts and franchises are carried at cost less amortization which is being provided principally on a straight-line basis over periods ranging from 5 to 20 years.

Franchise and License Fees
Initial franchise fees are recorded as income on the date the store is opened by the franchisee. Monthly fees from franchisees and licensees are accrued as earned based on their sales.

Taxes
Deferred income taxes result from timing differences between tax and financial recognition of income and expense. The principal items causing timing differences are provisions for losses on disposition of discontinued operations and accelerated depreciation.

The investment tax credit is deducted from federal income tax expense in the year in which the related asset is placed in service.

United States and Canadian excise taxes constitute a lien on in-bond inventories. Since these taxes are not payable until withdrawal from bond or after twenty years, whichever is earlier, excise taxes have not been accrued with respect to such inventories in accordance with industry practice.

Pension Plans
The Company has non-contributory retirement plans which cover substantially all full-time domestic employees except certain employees covered by union pension plans. Under collective bargaining agreements, the Company makes contributions to various pension plans for certain union employees. Pension costs charged to current earnings include charges for current service and amortization of prior years' service costs over 30 years. The Company's policy is to fund amounts accrued.

Earnings Per Share
Primary earnings per share are based on the weighted average number of common and common equivalent shares outstanding during each year.

Fully diluted earnings per share also include the effects of the remaining dilutive stock options and convertible securities.

Consolidated Statement of Income

(In thousands except per share data)	Year ended June 30, 1979	1978*
Revenues:		
Net sales	$1,719,222	$1,577,114
Franchise and license fees	49,852	42,998
	1,769,074	1,620,112
Costs and expenses:		
Cost of sales	1,222,693	1,139,387
Selling, advertising, administrative and general expenses	376,405	334,065
	1,599,098	1,473,452
Operating profit	169,976	146,660
Other deductions:		
Interest expense:		
Long-term debt	13,077	13,142
Other	10,029	11,899
Corporate and miscellaneous — net*	15,851	12,319
	38,957	37,360
Income before income taxes	131,019	109,300
Income taxes:		
Federal	49,968	41,433
State	9,211	7,744
Foreign	3,710	3,833
	62,889	53,010
Net income	$ 68,130	$ 56,290
Earnings per share:		
Primary	$3.19	$2.65
Fully diluted	$3.09	$2.58

*Reclassified to conform to fiscal 1979 segment presentation, see Business Segments note.

See accompanying notes and summary of accounting policies.

Consolidated Balance Sheet

(In thousands)	June 30, 1979	June 30, 1978
ASSETS		
Current assets:		
Cash and temporary investments	$ 52,842	$ 65,495
Accounts and notes receivable	180,393	170,918
Inventories:		
Finished products	94,045	77,257
Products in process	6,611	2,926
Bulk whiskey and wine	142,474	112,649
Raw materials	31,722	24,865
Total inventories	274,852	217,697
Prepaid expenses	6,798	9,266
Total current assets	514,885	463,376
Investments in and advances to affiliated companies	20,150	18,560
Property, plant and equipment, net	345,109	313,665
Other assets:		
Cost in excess of net assets of purchased businesses	56,177	50,812
Trademarks, contracts and franchises	2,395	2,796
Deferred income taxes	6,521	6,890
Other	26,681	27,147
	91,774	87,645
	$971,918	$883,246

Heublein

	June 30, 1979	June 30, 1978
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 17,797	$ 23,899
Current portion of long-term debt	3,102	2,648
Current obligations under capital leases	3,197	2,939
Accounts payable	67,791	64,689
Accrued expenses	68,276	55,797
Taxes:		
Federal, state and foreign income taxes	27,216	24,018
Excise taxes	53,459	32,208
Other taxes	12,823	11,091
Dividends payable	8,130	7,473
Current portion of reserve for discontinued operations	1,563	2,196
Total current liabilities	**263,354**	**226,958**
Long-term debt due after one year	**208,376**	**198,697**
Capital lease obligations	**26,541**	**25,524**
Reserve for discontinued operations	**6,458**	**7,434**
Other long-term liabilities and deferred income	**11,365**	**6,584**
Minority interest in foreign subsidiaries	**5,119**	**4,298**
Shareholders' equity:		
Preferred stock:		
Series A	1,000	1,077
Series B	255	268
Common stock	10,624	10,614
Additional paid-in capital	144,739	144,204
Retained earnings	294,417	257,918
	451,035	414,081
Less 7,650 treasury shares, at cost	330	330
Total shareholders' equity	450,705	413,751
	$971,918	$883,246

See accompanying notes and summary of accounting policies.

Consolidated Statement of Additional Paid-in Capital

(In thousands)	Year ended June 30, 1979	1978
Balance at beginning of year	**$144,204**	**$143,793**
Excess of option price over stated value of common stock issued on exercise of options	487	383
Excess of stated value of preferred stock converted over stated value of common stock	4	8
Tax benefit from exercise of nonqualified options issued under stock option plans	44	20
Balance at end of year	**$144,739**	**$144,204**

Consolidated Statement of Retained Earnings

(In thousands except per share data)	Year ended June 30, 1979	1978
Balance at beginning of year (as previously reported in 1978)	**$257,918**	**$232,976**
Adjustment for change in method of accounting for capital leases	—	(2,079)
Net income	68,130	56,290
Dividends declared on common stock — $1.49 per share ($1.38 in 1978)	(31,631)	(29,269)
Balance at end of year	**$294,417**	**$257,918**

See accompanying notes and summary of accounting policies.

Consolidated Statement of Changes in Financial Position

(In thousands)	Year ended June 30, 1979	1978
SOURCES OF WORKING CAPITAL		
Operations:		
Net income	$ 68,130	$ 56,290
Charges (credits) not requiring funds:		
Depreciation and amortization	33,837	30,413
Deferred income taxes	(386)	807
Equity in unremitted earnings of unconsolidated affiliates	(4,033)	(2,334)
Minority interest in earnings of foreign subsidiaries	821	408
Funds provided from operations	98,369	85,584
Book value of assets sold	11,164	17,941
Increase in long-term debt	13,032	3,772
Increase in other long-term liabilities and deferred income	5,798	3,510
Changes in investments in and advances to affiliated companies	2,250	(628)
Other — net	1,568	1,963
	132,181	**112,142**
USES OF WORKING CAPITAL		
Additions to property, plant and equipment	72,896	68,931
Dividends declared	31,631	29,269
Additions to cost in excess of net assets of purchased businesses, trademarks, contracts and franchises	7,674	3,424
Reduction of long-term debt	3,353	3,341
Increase in other assets	538	1,520
Reduction of long-term portion of reserve for discontinued operations	976	1,345
	117,068	**107,830**
Increase in working capital	**$ 15,113**	**$ 4,312**
CHANGES IN WORKING CAPITAL		
Cash and temporary investments	$ (12,653)	$ 31,809
Accounts and notes receivable	9,475	(17,244)
Inventories	57,155	(1,670)
Prepaid expenses	(2,468)	(898)
Notes payable, current portion of long-term debt and current obligations under capital leases	5,390	8,372
Accounts payable, accrued expenses and taxes	(41,762)	(17,116)
Dividends payable	(657)	(416)
Current portion of reserve for discontinued operations	633	1,475
Increase in working capital	**$ 15,113**	**$ 4,312**

See accompanying notes and summary of accounting policies.

Acquisitions

In fiscal 1979, the Company purchased for $7,600,000 the remaining 18% minority interest in United Vintners, Inc. and in fiscal 1978, purchased a foreign company for $5,243,000.

Discontinued Operations

Operating losses and disposal costs charged against the reserve for discontinuance of certain Kentucky Fried Chicken Corporation operations (provided for in prior years) aggregated $1,476,000 in fiscal 1979 and $1,836,000 in fiscal 1978. Management believes the remaining reserve is adequate to complete the discontinuance of these operations. Remaining assets related to these operations, included in other assets were $4,252,000 in 1979 and $5,256,000 in 1978.

Taxes

The provision for federal income taxes includes deferred tax charges (credits) resulting from the following:

	1979	1978
	(In thousands)	
Excess of tax over book depreciation	$1,670	$1,508
Losses from discontinued operations provided for in prior periods	556	706
Other items	(2,612)	(1,407)
Provision (benefit) for deferred income taxes	$ (386)	$ 807

The consolidated effective tax rate was 48.0% for 1979 and 48.5% for 1978. Items affecting these rates which were in excess of 5% of the statutory federal rate were (3.1)% in 1979 due to investment tax credits, and 3.7% in both 1979 and 1978 from state and local taxes, net of federal income tax benefit.

No provision for federal income taxes has been made on the undistributed earnings of foreign subsidiaries since it is management's intent to reinvest substantially all earnings of foreign subsidiaries abroad. If such earnings were distributed, income tax credits would be available to substantially reduce any resulting income tax liability.

Net sales include excise taxes of $465,682,000 in 1979 and $429,810,000 in 1978.

Property, Plant and Equipment

Property, plant and equipment are summarized by major classifications as follows:

	June 30,	
	1979	1978
	(In thousands)	
Land and land improvements	$ 47,625	$ 44,494
Buildings	110,304	97,773
Machinery and equipment	221,714	184,960
Leasehold improvements	61,514	52,414
Capital leases (principally buildings)	38,052	38,753
Construction work in progress	28,326	38,276
	507,535	456,670
Less accumulated depreciation and amortization	162,426	143,005
	$345,109	$313,665

Accumulated amortization pertaining to capital leases amounted to $13,397,000 and $14,981,000 at June 30, 1979 and 1978, respectively.

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Temporary Investments and Short-Term Borrowings

Temporary investments, consisting principally of commercial paper and U.S. Government obligations, amounted to $37,897,000 and $46,157,000 at June 30, 1979 and 1978, respectively.

Short-term borrowings at June 30, 1979 and 1978 related primarily to borrowings of foreign subsidiaries, principally Brazil in 1978.

Selected information regarding the Company's short-term borrowings follows:

	1979		1978	
	Amount	*Weighted average interest rate*	*Amount*	*Weighted average interest rate*
	(Dollars in thousands)			
Borrowings at June 30	$17,797	9.4%	$23,899	21.9%
Maximum balance of month-end borrowings	52,702		38,653	
Average month-end borrowings	30,013	19.1%	30,865	26.4%

At June 30, 1979 and 1978, the Company had available unsecured lines of credit from several domestic banks aggregating $21,800,000 for both years, and from foreign banks aggregating $47,948,000 and $39,000,000, respectively. In connection with its domestic credit lines, the Company is expected to maintain average bank balances approximating 10% of the credit lines when not in use and an additional 10% when in use. Such balances are not legally restricted as to utilization or withdrawal and are generally met with normal operating balances.

On August 22, 1979, the Company entered into a revolving credit agreement with a group of banks for the borrowing of up to $75,000,000 to August 22, 1982, decreasing $15,000,000 annually to August 22, 1986, and increased its available domestic lines of credit to $50,000,000.

Long-Term Debt

Long-term debt due after one year consists of the following:

	June 30, 1979	June 30, 1978
	(In thousands)	
4½% convertible subordinated debentures due May 15, 1997	$100,000	$100,000
8⅜% Notes due February 15, 1985	90,000	90,000
Mortgage notes payable in various installments	3,010	3,182
Other	15,366	5,515
	$208,376	$198,697

The 4½% subordinated debentures are convertible into common stock at approximately $69.50 per share (1,438,800 shares) and are subject to redemption through annual sinking fund payments beginning in 1983 of not less than 6% nor more than 12% of the principal amount of debentures outstanding in 1982.

The 8⅜% Notes may not be redeemed before February 15, 1983. On or after that date, the Notes may be redeemed at the option of the Company in whole or in part at their principal amount, plus accrued interest.

At June 30, 1979 mortgage notes payable were collateralized principally by property, plant and equipment with a net carrying amount of approximately $5,955,000 and other long-term debt was secured by approximately $8,190,000 of inventories.

The most restrictive term of long-term borrowing agreements limits the payment of cash dividends. Consolidated retained earnings not so restricted at June 30, 1979 amounted to approximately $203,921,000.

Aggregate maturities of long-term debt for the next five fiscal years are as follows:

1980 — $3,102,000
1981 — $4,542,000
1982 — $2,398,000
1983 — $9,680,000
1984 — $7,227,000

Capital Stock

Changes in capital stock outstanding during fiscal 1979 and 1978 are summarized below:

	Common	Preferred Series A convertible non-dividend	Preferred Series B convertible non-dividend
Shares authorized	30,000,000	5,000,000	
Stated value per share	$.50	$10	
Balance at July 1, 1977	21,209,414	193,716	29,736
Exercise of stock options	16,041		
Conversions of preferred stock	47	(150)	(636)
Shares issued in final settlement of contingent payout agreement	3,086		
Redemptions		(23,849)	(2,303)
Balance at June 30, 1978	21,228,588	169,717	26,797
Exercise of stock options	20,018		
Conversions of preferred stock	117	(57)	(393)
Redemptions		(18,000)	(969)
Balance at June 30, 1979	21,248,723	151,660	25,435

Each Series A preferred share is convertible into .10 share of common stock and is also redeemable in whole or in part at the option of the holder. Redemptions amounted to $77,000 in 1979 and $138,000 in 1978. Partial redemptions (aggregating $517,000 at June 30, 1979) do not reduce the number of shares outstanding. Series B preferred stock is convertible into .2974 share of common stock and is also redeemable in sub series. The Company has the option to redeem both classes in whole or in part for $10 per share, less any amounts previously paid in partial redemption.

Authorized capital stock also includes 500,000 shares of 5% preferred stock, par value $100 per share and 200,500 shares of 5% convertible preferred stock, par value $100 per share, none of which were outstanding during 1979 and 1978.

Shares of common stock were reserved as follows:

	June 30, 1979	June 30, 1978
Conversion of outstanding:		
4½% convertible subordinated debentures	1,438,800	1,438,800
Series A convertible preferred stock	9,709	10,484
Series B convertible preferred stock	7,564	7,969
Stock options	2,308,143	1,429,286
	3,764,216	2,886,539

Stock Options

The Qualified Stock Option Plan, which expired October 21, 1974, provided for the granting of options for the purchase of 1,000,000 shares of common stock. The 1971 and 1974 Stock Option Plans provide for the granting of options, both qualified and non-qualified, for the purchase of 500,000 and 1,000,000 shares of common stock, respectively. On October 26, 1978, the Shareholders approved an amendment to the 1974 Plan which provided for an additional 900,000 non-qualified options. The terms of the qualified and non-qualified options may not exceed five and ten years, respectively, and the option prices cannot be less than the fair market value of the Company's common stock on the date of grant.

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Changes in options outstanding during fiscal 1979 and 1978 were as follows:

	Shares	Option price Per share	Option price Total	Market price* Per share	Market price* Total
		(In thousands except per share amounts)			
Outstanding at July 1, 1977	1,047,707	$23.81 to $74.07	$33,199	$25.00	$26,193
Granted	455,878	23.69 to 27.63	11,522	23.69 to 27.63	11,522
Exercised	(16,041)	23.81 to 25.38	392	25.00 to 29.56	435
Cancelled	(112,516)				
Outstanding at June 30, 1978	1,375,028	23.69 to 48.56	40,704	26.88	36,954
Granted	—				
Exercised	(20,018)	23.81 to 25.38	498	26.81 to 31.56	592
Cancelled	(48,188)				
Outstanding at June 30, 1979	1,306,822	23.69 to 48.56	38,560	26.13	34,141
Became exercisable during:					
1979	316,056	23.81 to 48.56	9,823	26.63 to 28.88	8,822
1978	341,245	23.81 to 48.56	10,598	24.63 to 27.56	8,966

*At dates granted, exercised, became exercisable or June 30, respectively.

Options exercisable at June 30, 1979 and 1978 aggregated 809,119 and 526,613, respectively. At June 30, 1979 and 1978, there were options for 1,001,321 and 54,258 shares, respectively, available for future grant. No charges have been made to income in connection with options granted to date.

Pension and Profit Sharing Plans

Pension expense was $9,137,000 in 1979 and $7,989,000 in 1978.

The Company's contribution under its profit sharing plan for salaried employees is the lesser of 8% of net income, as defined, or 8% of participants' salaries. Contributions by the Company to the Plan amounted to $4,651,000 in 1979 and $4,360,000 in 1978.

Leases

The Company leases land, buildings and equipment. Many of these leases contain renewal options and some include escalation clauses. All noncancellable leases with an initial term greater than one year have been categorized as capital or operating leases in conformity with Financial Accounting Standard No. 13, "Accounting for Leases" (FAS 13).

For leases existing prior to January 1, 1977, the Company has retroactively adopted the requirements of FAS 13. Accordingly, the financial statements for the year ended June 30, 1978 have been restated, the effect of which was to reduce retained earnings at July 1, 1977 by $2,079,000 and to decrease net income for the year ended June 30, 1978 by $239,000 ($.01 per share).

Future minimum lease payments under noncancellable leases as of June 30, 1979 are summarized below:

	Capital leases	Operating leases
	(In thousands)	
Fiscal year ending June 30,		
1980	$ 6,494	$ 7,687
1981	5,866	6,601
1982	4,840	5,882
1983	4,457	5,297
1984	3,421	4,483
Thereafter	32,905	19,513
Total minimum lease payments	57,983	$49,463
Less amount representing interest	28,245	
Total obligations under capital leases	$29,738	

Rental expense under operating leases, net of minor sublease income, was $14,732,000 in 1979 and $15,809,000 in 1978, including contingent rental expense of $1,072,000 and $705,000, respectively. The most significant portion of contingent rental expense relates to the payment of mileage charges on transportation equipment.

Business Segments

The Company operates worldwide principally in four business segments: production and marketing of distilled spirits and prepared cocktails (Spirits), production and/or marketing of wines and brandies (Wines), production and sale of specialty food products (Grocery) and operating and franchising Kentucky Fried Chicken, and Zantigo Mexican-American Quick Service Restaurants (Restaurants). The business segment information for the years ended June 30, 1979 and 1978 is presented below:

	1979	1978*
	(In thousands)	
Revenues:		
Spirits	$ 819,563	$ 742,575
Wines	368,972	324,794
Grocery	114,193	118,160
Restaurants	466,346	434,583
Consolidated	$1,769,074	$1,620,112
Operating profit:		
Spirits	$ 87,599	$ 73,105
Wines	29,422	28,895
Grocery	17,989	17,949
Restaurants	34,966	26,711
Consolidated	169,976	146,660
Interest expense	23,106	25,041
Corporate and miscellaneous — net	15,851	12,319
Income before income taxes	$ 131,019	$ 109,300
Identifiable assets:		
Spirits	$ 300,605	$ 272,257
Wines	281,969	221,748
Grocery	66,696	61,170
Restaurants	242,266	227,659
Corporate	80,382	100,412
Consolidated	$ 971,918	$ 883,246
Capital expenditures:		
Spirits	$ 6,980	$ 18,847
Wines	20,414	14,460
Grocery	5,456	2,429
Restaurants	38,987	32,537
Corporate	1,059	658
Consolidated	$ 72,896	$ 68,931
Depreciation and amortization:		
Spirits	$ 5,648	$ 4,639
Wines	6,784	5,633
Grocery	3,243	2,706
Restaurants	16,766	16,211
Corporate	1,396	1,224
Consolidated	$ 33,837	$ 30,413

Geographic area information is presented below:

Revenues:		
United States	$1,428,183	$1,347,589
Brazil	138,048	115,529
Remaining foreign geographic areas	202,843	156,994
Consolidated	$1,769,074	$1,620,112

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Geographic area information (cont.):	1979	1978*
	(In thousands)	
Operating profit:		
United States	$ 139,938	$ 123,677
Brazil	9,948	4,693
Remaining foreign geographic areas	20,090	18,290
Consolidated	$ 169,976	$ 146,660
Identifiable assets:		
United States		
Operating assets	$ 680,167	$ 610,320
Corporate	80,382	100,412
Brazil	97,034	83,195
Remaining foreign geographic areas	114,335	89,319
Consolidated	$ 971,918	$ 883,246

*Restated for the effect of capital leases existing prior to January 1, 1977.

Intersegment, intergeographical and export transactions are not significant.

Operating profit of each segment is total revenue less operating expenses. Operating profit excludes interest expense, income taxes and "Corporate and miscellaneous — net", which consists of general corporate expenses and interest income, equity in earnings of unconsolidated affiliates and minority interest in earnings of foreign subsidiaries.

Corporate identifiable assets are principally cash and temporary investments.

Foreign exchange gains for fiscal 1979 and 1978 were $1,205,000 and $2,748,000, respectively.

Pending Legal Proceedings

In December 1972, the Federal Trade Commission (FTC) filed a complaint alleging a violation of Section 7 of the Clayton Act in connection with Heublein's 1969 acquisition of an 82% interest in United Vintners, Inc., a California winery, from Allied Grape Growers. This complaint, as amended, charged that, as a result of the acquisition, Heublein violated Section 7 of the Clayton Act and Section 5 of the Federal Trade Commission Act. After a long trial, on July 16, 1979 the FTC released the Administrative Law Judge's opinion and order, which concluded that the probable effects of the acquisition may be to lessen competition. He ordered that Heublein divest United Vintners within one year, and that Heublein not make any further acquisitions in the domestic wine industry of more than ten percent of the market, within the next ten years. His decision is not a final or binding decision of the FTC, and Heublein has filed an appeal with the FTC. Final resolution, including any court review, could require several years. In any event, management believes that the outcome of this litigation will not have a material adverse effect on the financial condition of Heublein.

Heublein and its subsidiaries are defendants in various other litigation matters in which aggregate alleged damages are substantial. Based upon the advice of counsel, management believes Heublein and its subsidiaries have adequate defenses and no material liability will result from such litigation.

Supplementary Income Statement Information

	1979	1978
	(In thousands)	
Taxes, other than income taxes:		
Federal, state and foreign excise taxes	$466,211	$430,289
Other	25,384	23,427
	$491,595	$453,716
Advertising, merchandising and sales promotion	$154,977	$140,160
Depreciation and amortization	$ 33,837	$ 30,413
Maintenance and repairs	$ 23,426	$ 18,608

Selected Quarterly Financial Data (Unaudited)

The following is a summary of selected unaudited quarterly financial data for the years ended June 30, 1979 and 1978 (in thousands except per share data):

	First quarter		Second quarter		Third quarter		Fourth quarter	
	1979	1978	1979	1978	1979	1978	1979	1978**
Net sales	$414,605	$376,337	$482,552	$433,270	$396,217	$362,108	$425,848	$405,399
Franchise and license fees	14,039	11,779	11,932	10,492	10,578	9,107	13,303	11,620
Total revenues	$428,644	$388,116	$494,484	$443,762	$406,795	$371,215	$439,151	$417,019
Cost of sales	$297,647*	$273,391*	$344,004*	$311,919*	$282,162	$263,355*	$298,880	$290,722*
Net income	$ 17,627	$ 14,455	$ 20,698	$ 16,838	$ 13,950	$ 11,050	$ 15,855	$ 13,947
Earnings per share:								
Primary	$.83	$.68	$.97	$.79	$.65	$.52	$.74	$.65
Fully diluted	$.80	$.66	$.93	$.77	$.64	$.51	$.72	$.64

*Reclassified to conform to fiscal 1979 segment presentation.
**Restated for the effect of capital leases existing prior to January 1, 1977.

Replacement Cost Information (Unaudited)

As required by the Securities and Exchange Commission, the Company's financial statements included in its Annual Report on Form 10-K contain unaudited replacement cost information. This information indicates that the replacement cost of the Company's inventories and productive capacity exceed the amounts originally incurred to acquire such assets, and that accumulated depreciation and depreciation expense based on average current replacement cost of productive capacity also exceed comparable amounts calculated using historical costs. Replacement cost of sales are approximately the same as historical cost of sales.

The replacement cost information in the Form 10-K, a copy of which is available on request, is based on many theoretical assumptions and substantial subjective judgments which may be subject to errors of estimation, and management makes no representation that the replacement cost information is useful.

Report of Certified Public Accountants

ARTHUR YOUNG & COMPANY

277 PARK AVENUE
NEW YORK, N.Y. 10017

Board of Directors and Shareholders
Heublein, Inc.

We have examined the accompanying consolidated balance sheet of Heublein, Inc. at June 30, 1979 and 1978, and the related consolidated statements of income, additional paid-in capital, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Heublein, Inc. at June 30, 1979 and 1978, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

July 23, 1979,
except as to the last paragraph
of Temporary Investments and
Short-Term Borrowings, as to which the
date is August 22, 1979

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Management's Discussion and Analysis of Consolidated Summary of Operations

The following discussion is presented to explain certain comparative changes shown in the Consolidated Summary of Operations. The Company's accounting policies, consolidated financial statements and notes to consolidated financial statements should be read in conjunction with this discussion since they are all essential in evaluating the Company's results of operations.

Fiscal year increase (decrease) in the components of earnings	Increase (decrease) 1979 compared to 1978		1978 compared to 1977	
	(Dollars in thousands)			
Revenues	$148,962	9.2%	$ 69,210	4.5%
Cost of sales	83,306	7.3	45,236	4.1
Selling, advertising, administrative and general expenses	42,340	12.7	15,967	5.0
Interest expense	(1,935)	(7.7)	(6,313)	(20.1)
Corporate and miscellaneous — net	3,532	28.7	301	2.5
Income taxes	9,879	18.6	5,629	11.9

Revenues

The Beverage Group was up 9.8% in 1979 and 10.2% in 1978 as a result of excellent demand for established products. The International Group advanced 25.1% in 1979 and 21.0% in 1978 from improved volumes primarily in the distilling operation in Brazil and KFC operations in Japan and Australia. Food revenue decreases of 2.3% and 13.0% in 1979 and 1978, respectively, were due principally to the phase-out of KFC's equipment and supplies operation and a reduction in the number of company-owned stores. Partially offsetting the 1979 decline in food revenues were higher per store averages in company-owned stores. Management estimates that price increases amounted to 3% and 2% of revenues in 1979 and 1978, respectively, both heavily weighted by the International Group's sharp price increases in Brazil as a result of their high inflation rate.

Cost of Sales

Increases for both years relate primarily to increased sales volumes in the Beverage Group and Brazilian operations. Higher raw material prices, as well as greater manufacturing costs, were encountered throughout the Company. Also contributing to 1978's increase were losses experienced on certain capital asset dispositions. Partially offsetting both years' increases were decreased costs in the Food Group resulting from lower sales volume, principally the phase-out of KFC's equipment and supplies operation.

Selling, Advertising, Administrative and General Expenses

Increases in both years were due to higher advertising, merchandising, sales promotion and selling expenditures in the Beverage and International Groups. Also contributing to both years' increases were lower foreign exchange gains and, in 1978, costs related to the conversion to point of sale registers at company-owned KFC stores and higher legal fees in connection with the FTC and other litigation.

Interest Expense

Decreases in both periods were due principally to improved management of our working capital needs in Brazil. The decline in 1978 was also a result of lower Brazilian interest rates.

Corporate and Miscellaneous — Net

Increases in both years were primarily attributed to increased Corporate general and administrative expenses, mainly increased salaries and related benefits. Offsetting these increases were increased earnings of unconsolidated affiliates in 1979, and higher Corporate interest income due to increased short-term investments and higher interest rates in 1978.

Income Taxes

The 1979 decline to 48.0% from 48.5% is due principally to the pro-rated reduction in the statutory federal tax rate. The 1978 decline to 48.5% from 49.4% was due principally to higher foreign earnings with lower effective tax rates.

Consolidated Summary of Operations

(Dollars in thousands except per share data)	1979	1978
Revenues	$1,769,074	$1,620,112
Costs and expenses:		
Cost of sales	1,222,693	1,139,387
Selling, advertising, administrative and general expenses	376,405	334,065
	1,599,098	1,473,452
Operating profit	169,976	146,660
Interest expense	23,106	25,041
Corporate and miscellaneous — net	15,851	12,319
Income before income taxes	131,019	109,300
Income taxes	62,889	53,010
Income from continuing operations	68,130	56,290
Income (loss) from discontinued operations, less tax effect	—	—
Income before extraordinary items	68,130	56,290
Extraordinary items, less tax effect	—	—
NET INCOME	68,130	56,290
Preferred dividends	—	—
Earnings applicable to common stock	$ 68,130	$ 56,290
Common and common equivalent shares	21,362,908	21,251,335
Earnings per common and common equivalent share:		
Continuing operations	$3.19	$2.65
Discontinued operations	—	—
Before extraordinary items	3.19	2.65
Extraordinary items	—	—
NET EARNINGS	$3.19	$2.65
Earnings per common share assuming full dilution:		
Continuing operations	$3.09	$2.58
Discontinued operations	—	—
Before extraordinary items	3.[illegible]9	2.58
Extraordinary items	—	—
NET EARNINGS	$3.09	$2.58
Dividends declared per common share	$ 1.49	$ 1.38
Common dividends declared	31,631	29,269
Earnings retained in the business*	36,499	27,021
Taxes of all kinds*	554,484	506,726
Capital expenditures	72,896	68,931
Depreciation and amortization*	33,837	30,413
Net property, plant and equipment	345,109	313,665
Working capital	251,531	236,418
Current ratio	2.0 to 1	2.0 to 1
Return on shareholders' equity*	15.8%	14.1%
Income as a percent of revenues*	3.85%	3.47%
Worldwide employment	24,922	22,817
Common shareholders	26,620	28,247

Restated where material (not restated for leases prior to 1975, since information was not available).
*Based on continuing operations.

1977	1976	1975	1974	1973	1972	1971	1970
$1,550,902	$1,583,133	$1,414,415	$1,240,142	$ 966,139	$ 814,000	$ 695,636	$ 636,038
1,094,151	1,100,170	988,872	854,504	661,806	547,065	471,140	428,891
318,098	323,151	277,943	255,998	201,776	172,124	148,696	130,772
1,412,249	1,423,321	1,266,815	1,110,502	863,582	719,189	619,836	559,663
138,653	159,812	147,600	129,640	102,557	94,811	75,800	76,375
31,354	20,456	19,665	9,830	6,357	7,381	8,321	8,930
11,301	9,070	6,458	8,786	6,656	7,657	6,858	5,325
95,998	130,286	121,477	111,024	89,544	79,773	60,621	62,120
47,381	64,405	61,570	58,683	46,877	41,474	31,834	33,207
48,617	65,881	59,907	52,341	42,667	38,299	28,787	28,913
(7,200)	7,184	1,498	2,069	1,544	(607)	396	2,729
41,417	73,065	61,405	54,410	44,211	37,692	29,183	31,642
—	—	—	—	(13,800)	(15,250)	(6,865)	283
41,417	73,065	61,405	54,410	30,411	22,442	22,318	31,925
—	—	—	—	—	293	1,078	1,377
$ 41,417	$ 73,065	$ 61,405	$ 54,410	$ 30,411	$ 22,149	$ 21,240	$ 30,548
21,435,418	21,536,526	21,216,540	21,166,002	20,932,055	19,607,538	18,522,645	18,036,939
$2.27	$3.06	$2.82	$2.47	$2.04	$1.94	$1.50	$1.53
(.34)	.33	.07	.10	.07	(.03)	.02	.16
1.93	3.39	2.89	2.57	2.11	1.91	1.52	1.69
—	—	—	—	(.66)	(.78)	(.37)	.01
$1.93	$3.39	$2.89	$2.57	$1.45	$1.13	$1.15	$1.70
$2.22	$2.96	$2.71	$2.40	$1.99	$1.87	$1.44	$1.46
(.31)	.31	.07	.09	.07	(.03)	.02	.13
1.91	3.27	2.78	2.49	2.06	1.84	1.46	1.59
—	—	—	—	(.61)	(.73)	(.33)	.01
$1.91	$3.27	$2.78	$2.49	$1.45	$1.11	$1.13	$1.60
$ 1.29	$ 1.175	$ 1.075	$ .98	$ .91	$ .87	$ .84	$ .79
27,333	24,838	22,711	20,497	18,095	15,921	9,554	8,586
21,284	41,043	37,196	31,844	24,572	22,085	18,155	18,950
469,903	486,338	452,885	421,249	341,247	292,349	250,990	236,235
56,858	54,215	59,164	59,259	38,954	30,325	45,086	69,365
27,211	25,052	24,131	14,919	10,750	10,267	9,458	9,655
288,062	279,327	252,932	189,880	148,858	149,052	153,564	155,880
232,405	228,948	217,297	212,800	124,800	147,530	77,035	83,172
2.1 to 1	2.0 to 1	2.1 to 1	2.2 to 1	1.8 to 1	2.4 to 1	1.6 to 1	1.7 to 1
12.8%	19.0%	19.6%	19.3%	17.8%	18.8%	17.0%	18.8%
3.13%	4.16%	4.24%	4.22%	4.42%	4.71%	4.14%	4.55%
22,789	24,871	25,912	24,711	18,300	17,452	16,794	15,693
29,071	24,769	27,174	27,493	28,537	30,044	33,426	29,626

Directors

EDWARD B. BATES
Chairman, Connecticut Mutual Life Insurance Company

CHRISTOPHER W. CARRIUOLO
Executive Vice President

JAMES F. ENGLISH, JR.
Vice President, Trinity College and Chairman of the Board, The Connecticut Bank and Trust Company

EDWARD H. HAMM
Vice President, The Northland Company (A financial service company)

LEON W. HARMAN
President, Harman Management Corporation (A franchisee for quick-service restaurants)

RALPH A. HART
Consultant and Retired Chairman Heublein Inc.

CHARLES G. KLOCK
Retired President, General Electric Credit Corporation

JOHN G. MARTIN
Consultant and Retired Chairman Heublein Inc.

ARTHUR A. MILLIGAN
President, Bank of A. Levy

WILLIAM H. MORTENSEN
Personal Investments

ROBERT L. TRESCHER
Sr. Partner, Law Firm of Montgomery, McCracken, Walker & Rhoads

HICKS B. WALDRON
President

STUART D. WATSON
Chairman

Corporate Officers

STUART D. WATSON
Chairman

HICKS B. WALDRON
President

CHRISTOPHER W. CARRIUOLO
Executive Vice President

GWAIN H. GILLESPIE
Senior Vice President - Finance & Administration

JOHN A. POWERS
Senior Vice President - Alcoholic Beverages

PAUL R. DOHL
Vice President - Group Executive Spirits Group

ROBERT A. MARTIN
Vice President - Group Executive Wines Group

MICHAEL A. MILES
Vice President - Group Executive Food Service and Franchising Group

BARRY M. ROWLES
Vice President - Group Executive International Group

ROBERT R. WEISS
Vice President - Group Executive Grocery Products Group

HUGH R. BEATH
Vice President and Treasurer

GEORGE CASPAR
Vice President, Secretary and General Counsel

GENE R. EHNEN
Vice President and Controller

CHARLES J. HERBERT
Vice President
President, Spirits Sales Division

WILLIAM W. MAURITZ
Vice President Human Resources

JOSEPH M. McGARRY
Vice President
Communication and Public Affairs

JOHN J. MORAN
Vice President - Assistant to the Chairman

ROY E. STONE
Vice President Technical Resources

Committees of the Board

EXECUTIVE COMMITTEE
S.D. WATSON*
E.B. BATES
J.F. ENGLISH, JR.
C.G. KLOCK
J.G. MARTIN
R.L. TRESCHER
H.B. WALDRON

AUDIT COMMITTEE
A.A. MILLIGAN*
J.F. ENGLISH, JR.
R.L. TRESCHER

COMPENSATION AND BENEFITS COMMITTEE
J.G. MARTIN*
E.B. BATES
J.F. ENGLISH, JR.
C.G. KLOCK
R.L. TRESCHER

FINANCE COMMITTEE
C.G. KLOCK*
E.B. BATES
J.F. ENGLISH, JR.
H.B. WALDRON
S.D. WATSON

NOMINATING COMMITTEE
E.B. BATES*
J.F. ENGLISH, JR.
J.G. MARTIN

SOCIAL RESPONSIBILITY COMMITTEE
C.W. CARRIUOLO*
E.H. HAMM
L.W. HARMAN
R.L. TRESCHER

*Chairman of Committee

Principal Offices

Corporate Headquarters
Farmington, Connecticut 06032 — (203) 677-4061

Food Service and Franchising Group Headquarters
1441 Gardiner Lane, Louisville, Kentucky 40232 —
(502) 459-8600

Kentucky Fried Chicken
Zantigo America's Mexican Restaurants

Grocery Products Group Headquarters
Farmington, Connecticut 06032 —
(203) 677-7441

International Group Headquarters
Farmington, Connecticut 06032 —
(203) 677-7441

Spirits Group Headquarters
330 New Park Avenue, Hartford, Connecticut 06101 —
(203) 233-7531

Arrow Sales Company
Smirnoff Sales Company
Venture Sales Company

Wines Group Headquarters
601 Fourth Street, San Francisco, California 94107 —
(415) 777-6500

United Vintners, Inc.

Transfer Agents
The Bank of New York
90 Washington Street, New York, New York 10015
Bank of America, N.T. & S.A.
55 Hawthorne Street, San Francisco, California 94105

Registrars
The Bank of New York
90 Washington Street, New York, New York 10015
Wells Fargo Bank, N.A.
P.O. Box 44011, San Francisco, California 94120

Trustees
4½% Convertible Subordinated Debentures
United States Trust Company of New York
45 Wall Street, New York, New York 10005

8⅜% Notes
Morgan Guaranty Trust Company of New York
23 Wall Street, New York 10015

Annual Shareholders' Meeting

The annual meeting of shareholders of Heublein Inc. will be held at 10:00 a.m. Thursday, October 25, 1979, in the Grand Ballroom of The Hartford Hilton, Ford and Pearl Streets, Hartford, Connecticut.

Heublein's 1979 Annual Report on Form 10-K as filed with the Securities and Exchange Commission will be available upon request from the Corporate Secretary, Heublein, Inc., Farmington, Connecticut 06032.

Dividends Declared & Stock Price Ranges

			Stock Price Range*	
	Quarter	Dividend	High	Low
1979	4	$.38	30⅝	25⅝
	3	.38	31⅞	27¾
	2	.38	31⅜	25⅜
	1	.35	29¼	25¼
1978	4	$.35	30⅛	25⅛
	3	.35	28	23¾
	2	.35	27⅛	22⅝
	1	.33	25⅜	22

*New York Stock Exchange

Heublein Brands of Foods and Beverages

Listed below are the principal brands of fine foods and beverages marketed by Heublein. When you have occasion to use products of this type, we invite you to order Heublein brands by name — you'll be getting the finest products of their kind.

SPIRITS: Smirnoff Vodkas (80° & 100°) • Smirnoff Silver (90.4°) • Black Velvet Canadian Whisky • Black & White Scotch • Arrow Cordials and Brandies • Bahia Licor de Cafe • Heublein Cocktails • The Club Cocktails • Jose Cuervo Tequila • Cuervo 1800 • Don Q Rum • Irish Mist Liqueur • Milshire Gin • Tullamore Dew Irish Whiskey • Popov Vodka • Relska Vodka • Arrow Ostrova Vodka • McMaster's Scotch and Canadian Whiskies • Matador Tequila • Malcolm Hereford's Cows • Yukon Jack Canadian Liqueur • Boggs Cranberry Liqueur • Vaklova Liqueur

CALIFORNIA WINES: Beaulieu Vineyard Wines • Inglenook Vineyards Wines • Colony Table Wines, Dessert Wines and Aperitifs • Petri Wines • Annie Green Springs Refreshment Wines • T.J. Swann Refreshment Wines • Bali Hai Tropical Flavored Wine • Sangrole • Mission Bell Wines • Santa Fe Dessert Wines • H.M.S. Frost • Esprit • Jacare • G & D Wines and Vermouth • Lejon Champagne and Brandy • Jacques Bonet Champagne and Brandy • Zazie Refreshment Wine

IMPORTED WINES: Lancers Vin Rose, Vinho Branco and Rubeo • Harveys Bristol Cream • Bouchard Pere & Fils Burgundy • Egri Bikaver Hungarian Wine • Tokaji Aszu Hungarian Dessert Wine • Harveys Other Sherries and Ports • Vinya Rose • Kiku Masamune Sake • Taru Sake

CONVENIENCE FOODS: Colonel Sanders' Recipe Kentucky Fried Chicken • Extra Crispy Chicken • Barbecue Style Chicken • H. Salt Seafood • The Colonel's Little Bucket Desserts • Zantigo Mexican-American Foods

SAUCES AND SPECIALTY FOODS: A.1. Steak Sauce • Grey Poupon Mustard • Ortega Tacos, Chiles, Sauces and Mexican-style Foods • Snap-E-Tom Tomato Cocktail • Regina Wine Vinegars and Cooking Wines • Escoffier Sauces • Steak Supreme Sauce • Hart's Dinner Rolls, Muffins and Buttermilk Biscuits

HEUBLEIN INC. FARMINGTON CONNECTICUT 06032